Our partnership agreement replaces our general partner's fiduciary duties to holders of our units.

Our partnership agreement contains provisions that eliminate and replace the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner, or otherwise free of fiduciary duties to us and our unitholders. This entitles our general partner to consider only the interests and factors that it desires and relieves it of any duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or our limited partners. Examples of decisions that our general partner may make in its individual capacity include:

- how to allocate business opportunities among us and its affiliates;
- whether to exercise its limited call right;
- whether to seek approval of the resolution of a conflict of interest by the conflicts committee of the board of directors of our general partner;
- how to exercise its voting rights with respect to the units it owns;
- whether to exercise its registration rights;
- whether to elect to reset target distribution levels; and
- whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement.

By purchasing a common unit, a unitholder agrees to be bound by our partnership agreement and approves the elimination and replacement of fiduciary duties discussed above.

Because our partnership agreement contains provisions that replace the standards to which our general partner would otherwise be held by state fiduciary duty law, it restricts the remedies available to holders of our units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Because our partnership agreement contains provisions that replace the standards to which our general partner would otherwise be held by state fiduciary duty law, it restricts the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty under state fiduciary duty law. For example, our partnership agreement provides that:

- whenever our general partner makes a determination or takes, or declines to take, any other action in its capacity as our general partner, our general partner is generally required to make such determination, or take or decline to take such other action, in good faith, meaning that it believed its actions or omission were not opposed to the interests of the partnership, and will not be subject to any higher standard imposed by our partnership agreement, Delaware law, or any other law, rule or regulation, or at equity;
- our general partner and its officers and directors will not be liable for monetary damages or otherwise to us or our limited partners resulting from any act or omission unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that such losses or liabilities were the result of conduct in which our general partner or its officers or directors engaged in bad faith, meaning that they believed that the decision was opposed to the interest of the partnership or, with respect to any criminal conduct, with knowledge that such conduct was unlawful; and
- our general partner will not be in breach of its obligations under the partnership agreement or its duties to us or our limited partners if a transaction with an affiliate or the resolution of a conflict of interest is:
  - approved by the conflicts committee of the board of directors of our general partner, although our general partner is not obligated to seek such approval; or
  - approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner and its affiliates.

In connection with a situation involving a transaction with an affiliate or a conflict of interest, other than one where our general partner is permitted to act in its sole discretion, any determination by our general partner must be made in good faith, meaning that it believed its actions or omissions were not opposed to the interests of the partnership. If an affiliate transaction or the resolution of a conflict of interest is not approved by our common unitholders or the conflicts committee then it will be presumed that, in making its decision, taking any action or failing to act, the board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

Our partnership agreement provides that the conflicts committee of the board of directors of our general partner may be comprised of one or more independent directors. For example, if as a result of resignation, disability, death or conflict of interest with respect to a party to a particular transaction, only one independent director is available or qualified to evaluate such transaction, your interests may not be as well served as if the conflicts committee acted with at least two independent directors.

A single-member conflicts committee would not have the benefit of discussion with, and input from, other independent directors.

BP Pipelines and other affiliates of our general partner may compete with us.

Our partnership agreement provides that our general partner will be restricted from engaging in any business activities other than acting as our general partner, engaging in activities incidental to its ownership interest in us and providing management, advisory, and administrative services to its affiliates or to other persons. However, affiliates of our general partner, including BP Pipelines, are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. For example, BP Pipelines owns the BP1 pipeline, which also delivers crude oil from Cushing, Oklahoma to the Whiting Refinery. The capacity of BP1, when combined with BP2's 475 kbpd current capacity, significantly exceeds Whiting Refinery's nameplate capacity of 430 kbpd. BP Products could choose to ship volumes to the Whiting Refinery on BP1 instead of BP2, resulting in a material decline in volumes on BP2. If such decline in volumes on BP2 were to occur or continue following the expiration of BP's obligation with respect to minimum volume commitments on BP2 on December 31, 2020, such a decline could result in a significant reduction in revenues that could have a material adverse effect on our results of operations. In addition, BP Pipelines may compete with us for investment opportunities and may own an interest in entities that compete with us.

Pursuant to the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our general partner or any of its affiliates, including its executive officers and directors and those of BP Pipelines. Any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. This may create actual and potential conflicts of interest between us and affiliates of our general partner and result in less than favorable treatment of us and our unitholders.

The fees and reimbursements due to our general partner and its affiliates, including BP Pipelines, for services provided to us or on our behalf will reduce our cash available for distribution. In certain cases, the amount and timing of such reimbursements will be determined by our general partner and its affiliates, including BP Pipelines.

Pursuant to our partnership agreement, we will reimburse our general partner and its affiliates, including BP Pipelines, for costs and expenses they incur and payments they make on our behalf. Pursuant to the omnibus agreement, we pay BP Pipelines a fee equal to $13.6 million per year, payable in equal monthly installments, for general and administrative services, and, in addition, to reimburse personnel and other costs related to the direct operation, management and maintenance of the assets. The fee was adjusted to $15.2 million per year, payable in equal monthly installments, beginning on January 1, 2020. Our general partner, in good faith, may adjust the administrative fee to reflect, among others, any change in the level or complexity of our operations, a change in the scope or cost of services provided to us, inflation or a change in law or other regulatory requirements, the contribution, acquisition or disposition of our assets or any material change in our operation activities. In addition, pursuant to the omnibus agreement, we will reimburse our general partner for payments to BP Pipelines and its affiliates for other expenses incurred by BP Pipelines and its affiliates on our behalf to the extent the fees relating to such services are not included in the general and administrative services fee. Each of these payments will be made prior to making any distributions on our common units. The reimbursement of expenses and payment of fees to our general partner and its affiliates will reduce our cash available for distribution. There is no limit on the fee and expense reimbursements that we may be required to pay to our general partner and its affiliates. Please read "Omnibus Agreement" in Part III, Item 13.

The holder or holders of our incentive distribution rights may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to the incentive distribution rights, without the approval of the conflicts committee of our general partner's board of directors or the holders of our common units. This could result in lower distributions to holders of our common units.

The holder or holders of a majority of our incentive distribution rights (initially our general partner) have the right, at any time when there are no subordinated units outstanding and we have made cash distributions in excess of the highest then-applicable target distribution for each of the prior four consecutive fiscal quarters (and the aggregate amounts distributed in respect of such four quarters did not exceed adjusted operating surplus for such four-quarter period), to reset the initial target distribution levels at higher levels based on our cash distribution levels at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution will be calculated equal to an amount equal to the prior cash distribution per common unit for the fiscal quarter immediately preceding the reset election (which amount we refer to as the "reset minimum quarterly distribution") and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution. If our general

partner elects to reset the target distribution levels, it will be entitled to receive a number of common units equal to the number of common units that would have entitled the holder to an aggregate quarterly cash distribution for the quarter prior to the reset election equal to the distribution on the incentive distribution rights for the quarter prior to the reset election.

We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per unit without such conversion. However, our general partner may transfer the incentive distribution rights at any time. It is possible that our general partner or a transferee could exercise this reset election at a time when we are experiencing declines in our aggregate cash distributions or at a time when the holders of the incentive distribution rights expect that we will experience declines in our aggregate cash distributions in the foreseeable future. In such situations, the holders of the incentive distribution rights may be experiencing, or may expect to experience, declines in the cash distributions it receives related to the incentive distribution rights and may therefore desire to be issued our common units rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience reduction in the amount of cash distributions that they would have otherwise received had we not issued new common units to the holders of the incentive distribution rights in connection with resetting the target distribution levels.

Unitholders have limited voting rights and are not entitled to elect our general partner or its directors, which could reduce the price at which our common units will trade.

Compared to the holders of common stock in a corporation, unitholders have limited voting rights and, therefore, limited ability to influence management's decisions regarding our business. Unitholders will have no right on an annual or ongoing basis to elect our general partner or its board of directors. The board of directors of our general partner, including the independent directors, is chosen entirely by BP Holdco, as a result of it owning our general partner, and not by our unitholders. Please read "Directors, Executive Officers, and Corporate Governance" and "Certain Relationships and Related Party Transactions, and Director Independence." Unlike publicly traded corporations, we will not conduct annual meetings of our unitholders to elect directors or conduct other matters routinely conducted at annual meetings of stockholders of corporations. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

If you are a non-eligible holder, your common units may be subject to redemption.

We have adopted certain requirements regarding those investors who may own our common and subordinated units. Eligible holders are limited partners whose, or whose owners', federal income tax status does not have or is not reasonably likely to have a material adverse effect on the rates that can be charged by us on assets that are subject to regulation by FERC or a similar regulatory body, as determined by our general partner with the advice of counsel. Ineligible holders are limited partners (a) who are not an eligible holder or (b) whose nationality, citizenship or other related status would create a substantial risk of cancellation or forfeiture of any property in which we have an interest, as determined by our general partner with the advice of counsel. If you are an ineligible holder, in certain circumstances as set forth in our partnership agreement, your units may be redeemed by us at the then-current market price. The redemption price will be paid in cash or by delivery of a promissory note, as determined by our general partner.

Even if holders of our common units are dissatisfied, they cannot initially remove our general partner without its consent.

If our unitholders are dissatisfied with the performance of our general partner, they have limited ability to remove our general partner. Unitholders are currently unable to remove our general partner without its consent because our general partner and its affiliates own sufficient units to be able to prevent its removal. Our general partner may not be removed except for cause by a vote of the holders of at least 66 $^{2}/3$% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. BP Holdco owns an aggregate of 54.4% of our common and subordinated units as of February 26, 2020.

In addition, any vote to remove our general partner during the subordination period must provide for the election of a successor general partner by the holders of a majority of the common units and a majority of the subordinated units, voting as separate classes. This will provide BP Holdco the ability to prevent the removal of our general partner.

Our general partner interest or the control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party without the consent of our unitholders. Furthermore, our partnership agreement does not restrict the ability of the owner of our general partner to transfer its membership interests in our general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and executive officers of our general partner with its own designees and thereby exert

significant control over the decisions taken by the board of directors and executive officers of our general partner. This effectively permits a “change of control” without the vote or consent of the unitholders.

The incentive distribution rights may be transferred to a third party without unitholder consent.

Our general partner may transfer the incentive distribution rights to a third party at any time without the consent of our unitholders. If our general partner transfers the incentive distribution rights to a third party, our general partner would not have the same incentive to grow our partnership and increase quarterly distributions to unitholders over time. For example, a transfer of incentive distribution rights by our general partner could reduce the likelihood of BP Pipelines accepting offers made by us relating to assets owned by BP Pipelines, as it would have less of an economic incentive to grow our business, which in turn would impact our ability to grow our asset base.

Our general partner has a limited call right that may require unitholders to sell their common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner, its affiliates or we will have the right, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price equal to the greater of (1) the average of the daily closing price of the common units over the 20 trading days preceding the date three days before notice of exercise of the call right is first mailed and (2) the highest per-unit price paid by our general partner or any of its affiliates for common units during the 90-day period preceding the date such notice is first mailed. As a result, unitholders may be required to sell their common units at an undesirable time or price and may not receive any return or a negative return on their investment. Unitholders may also incur a tax liability upon a sale of their units. Our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon exercise of the limited call right. There is no restriction in our partnership agreement that prevents our general partner from causing us to issue additional common units and then exercising its call right. If our general partner exercised its limited call right, the effect would be to take us private and, if the units were subsequently deregistered, we would no longer be subject to the reporting requirements of the Exchange Act. As of February 26, 2020, BP Holdco owned 8.7% of our common units and all of our subordinated units. At the end of the subordination period, assuming no additional issuances of units (other than upon the conversion of the subordinated units), BP Holdco will own 54.4% of our common units.

We may issue an unlimited number of additional partnership interests, including units ranking senior to the common units, without unitholder approval, which would dilute existing unitholder ownership interests.

Our partnership agreement authorizes us to issue an unlimited number of additional limited partner interests at any time without the approval of our unitholders. The issuance of additional common units or other equity interests of equal or senior rank will have the following effects:

- our existing unitholders’ proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

There are no limitations in our partnership agreement on our ability to issue units ranking senior to the common units.

In accordance with Delaware law and the provisions of our partnership agreement, we may issue additional partnership interests that are senior to the common units in right of distribution, liquidation and voting. The issuance by us of units of senior rank may (i) reduce or eliminate the amount of cash available for distribution to our common unitholders; (ii) diminish the relative voting strength of the total common units outstanding as a class; or (iii) subordinate the claims of the common unitholders to our assets in the event of our liquidation.

The market price of our common units could be adversely affected by sales of substantial amounts of our common units in the public or private markets, including sales by BP Holdco or other large holders.

As of February 26, 2020, we have 52,387,740 common units and 52,375,535 subordinated units outstanding. All of the subordinated units will convert into common units on a one-for-one basis at the end of the subordination period. Sales by BP Holdco or other large holders of a substantial number of our common units in the public markets, or the perception that such sales might occur, could have a material adverse effect on the price of our common units or could impair our ability to obtain

capital through an offering of equity securities. In addition, we have agreed to provide registration rights to BP Holdco. Under our partnership agreement, our general partner and its affiliates have registration rights relating to the offer and sale of any units that they hold. Alternatively, we may be required to undertake a future public or private offering of common units and use the net proceeds from such offering to redeem an equal number of common units held by BP Holdco.

Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.

Our partnership agreement restricts unitholders' voting rights by providing that any units held by a person or group that owns 20% or more of any class of units then outstanding, other than our general partner and its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter.

Our partnership agreement designates the Court of Chancery of the State of Delaware as the exclusive forum for certain types of actions and proceedings that may be initiated by our unitholders, which would limit our unitholders' ability to choose the judicial forum for disputes with us or our general partner's directors, officers or other employees. Our partnership agreement also provides that any unitholder bringing an unsuccessful action will be obligated to reimburse us for any costs we have incurred in connection with such unsuccessful action.

Our partnership agreement provides that, with certain limited exceptions, the Court of Chancery of the State of Delaware will be the exclusive forum for any claims, suits, actions or proceedings (1) arising out of or relating in any way to our partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of our partnership agreement or the duties, obligations or liabilities among limited partners or of limited partners to us, or the rights or powers of, or restrictions on, the limited partners or us), (2) brought in a derivative manner on our behalf, (3) asserting a claim of breach of a duty owed by any director, officer or other employee of us or our general partner, or owed by our general partner, to us or the limited partners, (4) asserting a claim arising pursuant to any provision of the Delaware Act or (5) asserting a claim against us governed by the internal affairs doctrine. In addition, if any unitholder brings any of the aforementioned claims, suits, actions or proceedings and such person does not obtain a judgment on the merits that substantially achieves, in substance and amount, the full remedy sought, then such person shall be obligated to reimburse us and our affiliates for all fees, costs and expenses of every kind and description, including but not limited to all reasonable attorneys' fees and other litigation expenses, that the parties may incur in connection with such claim, suit, action or proceeding. Our partnership agreement also provides that each limited partner waives the right to trial by jury in any such claim, suit, action or proceeding. By purchasing a common unit, a limited partner is irrevocably consenting to these limitations, provisions and potential reimbursement obligations regarding claims, suits, actions or proceedings and submitting to the exclusive jurisdiction of the Court of Chancery of the State of Delaware (or such other court) in connection with any such claims, suits, actions or proceedings. These provisions may have the effect of discouraging lawsuits against us and our general partner's directors and officers.

The price of our common units may fluctuate significantly, and unitholders could lose all or part of their investment.

The market price of our common units is influenced by many factors, some of which are beyond our control, including:

- our quarterly distributions;
- our quarterly or annual earnings or those of other companies in our industry;
- announcements by us or our competitors of significant contracts or acquisitions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- general economic conditions;
- the failure of securities analysts to cover our common units or changes in financial estimates by analysts;
- future sales of our common units; and
- the other factors described in these "Risk Factors."

Unitholders' liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law, and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. A unitholder could be liable for any and all of our obligations as if a unitholder were a general partner if a court or government agency were to determine that (i) we were conducting business in a state but had not complied with that particular state's partnership statute; or (ii) a unitholder's right to act with other unitholders to remove or replace our general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute "control" of our business.

Unitholders may have liability to repay distributions.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Act, we may not make a distribution to our unitholders if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Liabilities to partners on account of their partnership interests and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

If we fail to develop or maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential unitholders could lose confidence in our financial reporting, which would harm our business and the trading price of our units.

Effective internal controls are necessary for us to provide reliable financial reports, prevent fraud and operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. We cannot be certain that our efforts to develop and maintain our internal controls will be successful, that we will be able to maintain adequate controls over our financial processes and reporting in the future or that we will be able to comply with our obligations under Section 404 of the Sarbanes-Oxley Act of 2002. Any failure to develop or maintain effective internal controls, or difficulties encountered in implementing or improving our internal controls, could harm our operating results or cause us to fail to meet our reporting obligations. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our units.

The NYSE does not require a publicly traded partnership like us to comply, and we do not intend to comply, with certain of its governance requirements generally applicable to corporations.

Our common units are listed on the NYSE under the symbol BPMP. As a publicly traded partnership, the NYSE does not require us to have a majority of independent directors on our general partner's board of directors or to establish a compensation committee or a nominating and corporate governance committee. Accordingly, unitholders will not have the same protections afforded to stockholders of certain corporations that are subject to all of the NYSE's corporate governance requirements.

Tax Risks to Common Unitholders

Our tax treatment depends on our status as a partnership for federal income tax purposes and not being subject to a material amount of entity-level taxation. If the IRS were to treat us as a corporation for federal income tax purposes, or if we become subject to entity-level taxation for state tax purposes, our cash available for distribution to unitholders would be substantially reduced.

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes.

Despite the fact that we are organized as a limited partnership under Delaware law, we would be treated as a corporation for U.S. federal income tax purposes unless we satisfy a "qualifying income" requirement. Based upon our current operations and current Treasury Regulations, we believe we satisfy the qualifying income requirement. However, no ruling has been or will be requested regarding our treatment as a partnership for U.S. federal income tax purposes. Failing to meet the qualifying income requirement or a change in current law could cause us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes, we would pay U.S. federal income tax on our taxable income at the corporate tax rate. Distributions to unitholders would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to unitholders. Because a tax would be imposed upon us as a corporation, our cash available for distribution to unitholders would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units.

At the state level, several states have been evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise or other forms of taxation. We currently own assets and conduct business in several states that impose a margin or franchise tax, and the State of Illinois, where Diamondback terminates, currently imposes an income-based replacement tax. In the future, we may expand our operations. Imposition of a similar tax on us in other jurisdictions that we may expand to could substantially reduce our cash available for distribution to our unitholders. Our partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a

corporation or otherwise subjects us to entity-level taxation for U.S. federal, state, local or foreign income tax purposes, the minimum quarterly distribution amount and the target distribution amounts may be adjusted to reflect the impact of that law or interpretation on us.

The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes or differing interpretations, possibly applied on a retroactive basis.

The present U.S. federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units, may be modified by administrative, legislative or judicial changes or differing interpretations at any time. From time to time, members of Congress have proposed and considered substantive changes to the existing U.S. federal income tax laws that would affect publicly traded partnerships including elimination of partnership tax treatment for certain publicly traded partnerships. Any modification to the U.S. federal income tax laws may be applied retroactively and could make it more difficult or impossible for us to meet the exception for certain publicly traded partnerships to be treated as partnerships for U.S. federal income tax purposes. For example, the "Clean Energy for America Act" was introduced in the Senate on May 2, 2019. If enacted, this proposal would, among other things, repeal the qualifying income exception within Section 7704(d)(1)(E) of the Code upon which we rely for our status as a partnership for U.S. federal income tax purposes.

In addition, the Treasury Department has issued, and in the future may issue, regulations interpreting those laws that affect publicly traded partnerships. There can be no assurance that there will not be further changes to U.S. federal income tax laws or the Treasury Department's interpretation of such income tax laws in a manner that could impact our ability to qualify as a publicly traded partnership in the future. We are unable to predict whether any changes or other proposals will ultimately be enacted. Any future legislative changes could negatively impact the value of an investment in our common units. You are urged to consult with your own tax advisor with respect to the status of regulatory or administrative developments and proposals and their potential effect on your investment in our common units.

Our general partner may elect to convert or restructure the partnership to an entity taxable as a corporation for U.S. federal income tax purposes without unitholder consent.

Under our partnership agreement, our general partner may, without unitholder approval, cause the partnership to be treated as an entity taxable as a corporation or subject to entity-level taxation for U.S. federal or applicable state and local income tax purposes, whether by election of the partnership or conversion of the partnership or by any other means or methods. The general partner may take this action if it believes it is adverse to our interests (i) for us to continue to be characterized as a partnership for U.S. federal or applicable state and local income tax purposes or (ii) for common units held by unitholders other than our general partner and its affiliates not to be converted into or exchanged for an interest in an entity taxed as a corporation or at the entity level for U.S. federal or applicable state or local tax purposes whose sole asset is an interest in us. Any such event may be taxable or nontaxable to our unitholders, depending on the form of the transaction. The tax liability, if any, of a unitholder as a result of such an event may vary depending on the unitholder's particular situation and may vary from the tax liability of our general partner and BP Pipelines. In addition and as part of such determination, our general partner and its affiliates may choose to retain their partnership interests in us and cause our interests held by other persons to be exchanged for interests in a new entity, taxable as a corporation or subject to entity-level taxation for U.S. federal or applicable state or local tax purposes whose sole assets are interests in us. Our general partner has no duty or obligation to make any such determination or take any such actions, and may decline to do so in its sole discretion and free from any duty to our limited partners.

If the IRS were to contest the federal income tax positions we take, it may adversely impact the market for our common units, and the costs of any such contest would reduce cash available for distribution to our unitholders.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for U.S. federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take. A court may not agree with some or all of the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. Moreover, the costs of any contest between us and the IRS will result in a reduction in cash available for distribution to our unitholders and thus will be borne indirectly by our unitholders.

If the IRS makes audit adjustments to our income tax returns for tax years beginning after December 31, 2017, it (and some states) may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustments directly from us, in which case our cash available for distribution to our unitholders might be substantially reduced and our current and former unitholders may be required to indemnify us for any taxes (including any applicable penalties and interest) resulting from such audit adjustment that were paid on such unitholders' behalf.

Pursuant to the Bipartisan Budget Act of 2015, for tax years beginning after December 31, 2017, if the IRS makes audit adjustments to our income tax returns, it (and some states) may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustments directly from us. To the extent possible under the new rules, our general partner may elect to either pay the taxes (including any applicable penalties and interest) directly to the IRS or, if we are eligible, issue a revised information packet to each unitholder and former unitholder with respect to an audited and adjusted return. Although our general partner may elect to have our unitholders and former unitholders take such audit adjustment into account and pay any resulting taxes (including applicable penalties or interest) in accordance with their interests in us during the tax year under audit, there can be no assurance that such election will be practical, permissible or effective in all circumstances. As a result, our current unitholders may bear some or all of the tax liability resulting from such audit adjustment, even if such unitholders did not own units in us during the tax year under audit. If, as a result of any such audit adjustment, we are required to make payments of taxes, penalties and interest, our cash available for distribution to our unitholders might be substantially reduced and our current and former unitholders may be required to indemnify us for any taxes (including any applicable penalties and interest) resulting from such audit adjustments that were paid on such unitholders' behalf. These rules are not applicable for tax years beginning on or prior to December 31, 2017.

Even if unitholders do not receive any cash distributions from us, they will be required to pay taxes on their share of our taxable income.

Unitholders are required to pay U.S. federal income taxes and, in some cases, state and local income taxes, on their share of our taxable income, whether or not they receive cash distributions from us. Unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax due from them with respect to that income.

Tax gain or loss on disposition of our common units could be more or less than expected.

If a unitholder sells common units, the unitholder will recognize a gain or loss equal to the difference between the amount realized and that unitholder’s tax basis in those common units. Because distributions in excess of a unitholder’s allocable share of our net taxable income decrease its tax basis in such unitholder’s common units, the amount, if any, of such prior excess distributions with respect to the units a unitholder sells will, in effect, become taxable income to a unitholder if it sells such units at a price greater than its tax basis in those units, even if the price such unitholder receives is less than its original cost. In addition, because the amount realized includes a unitholder’s share of our nonrecourse liabilities, if a unitholder sells its units, a unitholder may incur a tax liability in excess of the amount of cash received from the sale.

A substantial portion of the amount realized from a unitholder’s sale of our units, whether or not representing gain, may be taxed as ordinary income to such unitholder due to potential recapture items, including depreciation recapture. Thus, a unitholder may recognize both ordinary income and capital loss from the sale of units if the amount realized on a sale of such units is less than such unitholder’s adjusted basis in the units. Net capital loss may only offset capital gains and, in the case of individuals, up to $3,000 of ordinary income per year. In the taxable period in which a unitholder sells its units, such unitholder may recognize ordinary income from our allocations of income and gain to such unitholder prior to the sale and from recapture items that generally cannot be offset by any capital loss recognized upon the sale of units.

Tax-exempt entities face unique tax issues from owning our common units that may result in adverse tax consequences to them.

Investment in our common units by tax-exempt entities, such as employee benefit plans and individual retirement accounts (known as IRAs), raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from U.S. federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Further, with respect to taxable years beginning after December 31, 2017, subject to the proposed aggregation rules for certain similarly situated businesses or activities issued by the Treasury Department, a tax-exempt entity with more than one unrelated trade or business (including by attribution from investment in a partnership such as ours) is required to compute the unrelated business taxable income of such tax-exempt entity separately with respect to each such trade or business (including for purposes of determining any net operating loss deduction). As a result, for years beginning after December 31, 2017, it may not be possible for tax-exempt entities to utilize losses from an investment in our partnership to

offset unrelated business taxable income from another unrelated trade or business and vice versa. Tax-exempt entities should consult a tax advisor before investing in our common units.

Non-U.S. Unitholders will be subject to U.S. taxes and withholding with respect to their income and gain from owning our units.

Non-U.S. unitholders are generally taxed and subject to income tax filing requirements by the United States on income effectively connected with a U.S. trade or business ("effectively connected income"). Income allocated to our unitholders and any gain from the sale of our units will generally be considered to be "effectively connected" with a U.S. trade or business. As a result, distributions to a Non-U.S. unitholder will be subject to withholding at the highest applicable effective tax rate and a Non-U.S. unitholder who sells or otherwise disposes of a unit will also be subject to U.S. federal income tax on the gain realized from the sale or disposition of that unit.

Moreover, the transferee of an interest in a partnership that is engaged in a U.S. trade or business is generally required to withhold 10% of the amount realized by the transferor unless the transferor certifies that it is not a foreign person, and we are required to deduct and withhold from the transferee amounts that should have been withheld by the transferees but were not withheld. Because the "amount realized" includes a partner's share of the partnership's liabilities, 10% of the amount realized could exceed the total cash purchase price for the units. However, pending the issuance of final regulations, the IRS has suspended the application of this withholding rule to transfers of publicly traded interests in publicly traded partnerships. If recently promulgated regulations are finalized as proposed, such regulations would provide, with respect to transfers of publicly traded interests in publicly traded partnerships effected through a broker, that the obligation to withhold is imposed on the transferor's broker and that a partner's "amount realized" does not include a partner's share of a publicly traded partnership's liabilities for purposes of determining the amount subject to withholding. However, it is not clear when such regulations will be finalized and if they will be finalized in their current form.

We treat each purchaser of common units as having the same tax benefits without regard to the common units actually purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units, we have adopted certain methods for allocating depreciation and amortization deductions that may not conform to all aspects of existing Treasury Regulations. A successful IRS challenge to the use of these methods could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain from any sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to a unitholder's tax returns.

We generally prorate our items of income, gain, loss and deduction between transferors and transferees of our common units each month based upon the ownership of our common units on the first day of each month, instead of on the basis of the date a particular common unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We generally prorate our items of income, gain, loss and deduction between transferors and transferees of our common units each month based upon the ownership of our common units on the first day of each month (the "Allocation Date"), instead of on the basis of the date a particular common unit is transferred. Similarly, we generally allocate (i) certain deductions for depreciation of capital additions, (ii) gain or loss realized on a sale or other disposition of our assets and, (iii) in the discretion of the general partner, any other extraordinary item of income, gain, loss or deduction based upon ownership on the Allocation Date. Treasury Regulations allow a similar monthly simplifying convention, but such regulations do not specifically authorize all aspects of our proration method. If the IRS were to challenge our proration method, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders.

A unitholder whose common units are the subject of a securities loan (e.g., a loan to a "short seller" to cover a short sale of common units) may be considered to have disposed of those common units. If so, such unitholder would no longer be treated for tax purposes as a partner with respect to those common units during the period of the loan and could recognize gain or loss from the disposition.

Because there are no specific rules governing the U.S. federal income tax consequence of loaning a partnership interest, a unitholder whose common units are the subject of a securities loan may be considered to have disposed of the loaned common units. In that case, the unitholder may no longer be treated for tax purposes as a partner with respect to those common units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan, any of our income, gain, loss or deduction with respect to those common units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those common units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a

securities loan are urged to consult a tax advisor to determine whether it is advisable to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their common units.

We have adopted certain valuation methodologies in determining a unitholder's allocations of income, gain, loss and deduction. The IRS may challenge these methodologies or the resulting allocations, which could adversely affect the value of our common units.

In determining the items of income, gain, loss and deduction allocable to our unitholders, we must routinely determine the fair market value of our assets. Although we may, from time to time, consult with professional appraisers regarding valuation matters, we make many fair market value estimates using a methodology based on the market value of our common units as a means to measure the fair market value of our assets. The IRS may challenge these valuation methods and the resulting allocations of income, gain, loss and deduction.

A successful IRS challenge to these methods or allocations could adversely affect the timing or amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain recognized from our unitholders' sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders' tax returns without the benefit of additional deductions.

Our unitholders will likely be subject to state and local taxes and income tax return filing requirements in jurisdictions where they do not live as a result of investing in our common units.

In addition to U.S. federal income taxes, our unitholders may be subject to other taxes, including foreign, state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we conduct business or own property now or in the future, even if they do not live in any of those jurisdictions. Our unitholders will likely be required to file foreign, state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, our unitholders may be subject to penalties for failure to comply with those requirements.

We currently own assets and conduct business in multiple states, which currently impose a personal income tax on individuals, corporations and other entities. As we make acquisitions or expand our business, we may own assets or conduct business in additional states that impose a personal income tax. It is our unitholders' responsibility to file all United States federal, foreign, state and local tax returns and pay any taxes due in these jurisdictions. Unitholders should consult with their own tax advisors regarding the filing of such tax returns, the payment of such taxes, and the deductibility of any taxes paid.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 3. LEGAL PROCEEDINGS

We are party to ongoing legal proceedings in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, we do not believe the results of these proceedings, individually or in the aggregate, will have a material adverse effect on our business, financial condition, results of operations or liquidity. In addition, pursuant to the terms of the various agreements under which we acquired assets from BP since the IPO, BP will indemnify us for certain liabilities relating to litigation and environmental matters attributable to the ownership or operation of the acquired assets prior to our acquisition of those assets. For additional information regarding this indemnity, please see "Business—Environmental Matters—Indemnity Under the Omnibus Agreement."

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for the Partnership's Common Equity

On October 26, 2017, our common units began trading on the NYSE under the symbol “BPMP”. At the close of business on February 10, 2020, there were four unitholders of record of the Partnership's common and subordinated units.

Sales of Unregistered Equity Securities

We did not have any sales of unregistered equity securities during the quarter or fiscal year ended December 31, 2019 that we have not previously reported on a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

Market Repurchases

None.

Securities Authorized for Issuance Under Equity Compensation Plans

On October 26, 2017, the Board of Directors for our general partner adopted the BP Midstream Partners LP 2017 LTIP, which permits the issuance of up to 5,502,271 common units. Phantom unit grants have been made to three of the independent directors of our general partner under the LTIP. See Part II, Item 8. *Financial Statements and Supplementary Data* - Note 16. *Unit-Based Compensation*. See Part III, Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* for information regarding our equity compensation plan as of December 31, 2019.

Distributions

Cash Distribution Policy

Our partnership agreement provides that our general partner will make a determination as to whether to make a distribution, but our partnership agreement does not require us to pay distributions at any time or in any amount. Pursuant to our cash distribution policy, within 60 days after the end of each quarter, we intend to distribute to the holders of common and subordinated units on a quarterly basis at least the minimum quarterly distribution of $0.2625 per unit, or $1.05 on an annualized basis, to the extent we have sufficient cash after establishment of cash reserves and payment of fees and expenses, including payments to our general partner and its affiliates. However, there is no guarantee that we will pay the minimum quarterly distribution on our units in any quarter. The amount of distributions paid under our cash distribution policy and the decision to make any distribution will be determined by our general partner, taking into consideration the terms of our partnership agreement. Please see Part II, Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations-Capital Resources* and *Liquidity-Revolving Credit Facility* for a discussion of the restrictions included in our revolving credit facility that may restrict our ability to make distributions. Please see Part I, Item 1A. *Risk Factors* for further detail regarding other potential restrictions on our ability to make distributions.

General Partner Interest and Incentive Distribution Rights

Our general partner owns a non-economic general partner interest in us, which does not entitle it to receive cash distributions. However, our general partner may in the future own common units or other equity interests in us and will be entitled to receive distributions on such interests.

Our general partner currently owns all of our incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50%, of quarterly distributions from operating surplus (as defined in our partnership agreement) after the minimum quarterly distribution and the target distribution levels have been achieved. The maximum distribution of 50% does not include any distributions that our general partner or its affiliates may receive on common or subordinated units that they own.

Percentage Allocations of Distributions from Operating Surplus

The following table illustrates the percentage allocations of distributions from operating surplus between the unitholders and the holders of our incentive distribution rights based on the specified target distribution levels. The amounts set forth under the column heading "Marginal Percentage Interest in Distributions" are the percentage interests of the holders of our incentive distribution rights and the unitholders in any distributions from operating surplus for the increment of the per unit distribution specified in the column titled "Total Quarterly Distribution Per Unit." The percentage interests set forth below assume there are no arrearages on common units.

	Total Quarterly Distribution Per Unit		Marginal Percentage Interest in Distributions	
			Unitholders	Incentive Distribution Rights Holders
Minimum Quarterly Distribution	up to $0.2625		100 %	— %
First Target Distribution	above $0.2625	up to $0.3019	100 %	— %
Second Target Distribution	above $0.3019	up to $0.3281	85 %	15 %
Third Target Distribution	above $0.3281	up to $0.3938	75 %	25 %
Thereafter	above $0.3938		50 %	50 %

Subordination Period

General

Our partnership agreement provides that, during the subordination period (which we describe below), the common units have the right to receive distributions from operating surplus each quarter in an amount equal to $0.2625 per common unit plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions from operating surplus may be made on the subordinated units. These units are deemed "subordinated" because for a period of time, referred to as the subordination period, the subordinated units will not be entitled to receive any distribution from operating surplus for any quarter until the common units have received the minimum quarterly distribution from operating surplus for such quarter plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Furthermore, no arrearages will be paid on the subordinated units. The practical effect of the subordinated units is to increase the likelihood that during the subordination period, there will be sufficient cash from operating surplus to pay the minimum quarterly distribution on the common units.

Subordination Period

Except as described below, the subordination period began on the closing date of the IPO and expires on the first business day after the distribution to unitholders in respect of any quarter, beginning with the quarter ending December 31, 2020, if each of the following has occurred:

- for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date, aggregate distributions from operating surplus equaled or exceeded the sum of the minimum quarterly distribution multiplied by the total number of common and subordinated units outstanding in each quarter in each period;
- for the same three consecutive, non-overlapping four-quarter periods, the adjusted operating surplus (as described in our partnership agreement) equaled or exceeded the sum of the minimum quarterly distribution multiplied by the total number of common and subordinated units outstanding during each quarter on a fully diluted weighted average basis; and
- there are no arrearages in payment of the minimum quarterly distribution on the common units.

Early Termination of Subordination Period

Notwithstanding the foregoing, the subordination period will automatically terminate, and all of the subordinated units will convert into common units on a one-for-one basis, on the first business day after the distribution to unitholders in respect of any quarter, beginning with the quarter ending December 31, 2018, if each of the following has occurred:

- for one four-quarter period immediately preceding that date, aggregate distributions from operating surplus exceeded 150% of the minimum quarterly distribution multiplied by the total number of common units and subordinated units outstanding in each quarter in the period;

- for the same four-quarter period, the adjusted operating surplus equaled or exceeded 150% of the sum of the minimum quarterly distribution multiplied by the total number of common and subordinated units outstanding during each quarter on a fully diluted weighted average basis, plus the related distribution on the incentive distribution rights; and
- there are no arrearages in payment of the minimum quarterly distributions on the common units.

Expiration of the Subordination Period

When the subordination period ends, each outstanding subordinated unit will convert into one common unit and will then participate pro-rata with the other common units in distributions.

Item 6. SELECTED FINANCIAL DATA

For periods prior to the completion of the IPO on October 30, 2017, the following selected financial data consisted of the combined operations of our Predecessor. All financial information presented for periods after the IPO represents the consolidated results of operations, financial position and cash flows of the Partnership. Accordingly:

- The selected statements of operations data for the years ended December 31, 2019 and 2018 consists of the consolidated results of the Partnership. The selected statement of operations data for the year ended December 31, 2017 consists of the consolidated results of the Partnership for the period from October 30, 2017 through December 31, 2017 and of the combined results of our Predecessor for the period from January 1, 2017 through October 29, 2017. The selected statements of operations data for the years ended December 31, 2016 and 2015 consists entirely of the combined results of our Predecessor.
- The selected balance sheet data at December 31, 2019, 2018 and 2017 consists of the consolidated balances of the Partnership, while the selected balance sheet data at December 31, 2016 and 2015 consist of the combined balances of our Predecessor.

Please read the selected financial data presented below in conjunction with Part II, Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Part II, Item 8. *Financial Statements and Supplementary Data* included in this report.

	Years Ended December 31,				
	2019	2018	2017	2016	2015
(in thousands of dollars, unless otherwise indicated)					
Consolidated Statement of Operations Data					
Total revenue	$ 128,468	$ 116,439	$ 108,151	$ 103,003	$ 106,778
Total costs and expenses	43,021	41,081	31,691	28,188	29,286
Operating income	85,447	75,358	76,460	74,815	77,492
Income from equity method investments	116,747	94,361	17,916	—	—
Net income	187,067	165,676	68,976	45,870	46,742
Net income attributable to the Partnership subsequent to the IPO	167,884	133,057	21,775	*	*
Per Unit Data					
Net income attributable to the Partnership per limited partner unit - basic and diluted (in dollars):					
Common units	$ 1.58	$ 1.27	$ 0.21	*	*
Subordinated units	$ 1.58	$ 1.27	$ 0.21	*	*
Distributions declared per limited partner unit (in dollars):					
Common units	$ 1.3193	$ 1.1330	$ 0.1798	*	*
Subordinated units	$ 1.3193	$ 1.1330	$ 0.1798	*	*
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 98,831	$ 56,970	$ 32,694	$ —	$ —
Property, plant and equipment, net	62,693	68,580	69,488	71,235	69,852
Total assets	722,096	693,203	605,658	87,586	86,047
Short-term debt	—	—	15,000	—	—
Long-term debt	468,000	468,000	—	—	—
Total equity	240,230	210,852	580,855	73,942	74,258

** Information is not applicable for the periods prior to the IPO.*

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise stated or the context otherwise indicates, all references to "we," "our," "us," "Wholly Owned Assets," "Predecessor," or similar expressions for time periods prior to the initial public offering (the "IPO") refer to BP Midstream Partners LP Predecessor, our predecessor for accounting purposes. For time periods subsequent to the IPO, "we," "our," "us," or similar expressions refer to the legal entity BP Midstream Partners LP (the "Partnership"). The term "our Parent" refers to BP Pipelines (North America), Inc. ("BP Pipelines"), any entity that wholly owns BP Pipelines, indirectly or directly, including BP America Inc. and BP p.l.c. ("BP"), and any entity that is wholly owned by the aforementioned entities, excluding BP Midstream Partners LP Predecessor and the Partnership.

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the information included under Part I, Item 1 and 2. Business and Properties, Part I, Item 1A. Risk Factors, Part II, Item 6. Selected Financial Data and Part II, Item 8. Financial Statements and Supplementary Data. It should also be read together with "Cautionary Note Regarding Forward-Looking Statements" in this report.

This section of this Form 10-K generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Partnerships's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Partnership Overview

We are a fee-based, growth-oriented master limited partnership formed by BP Pipelines, an indirect wholly owned subsidiary of BP, to own, operate, develop and acquire pipelines and other midstream assets. Our assets consist of interests in entities that own crude oil, natural gas, refined products and diluent pipelines and refined product terminals serving as key infrastructure for BP and other customers to transport onshore crude oil production to BP's Whiting Refinery and offshore crude oil and natural gas production to key refining markets and trading and distribution hubs. Certain of our assets deliver refined products and diluent from the Whiting Refinery and other U.S. supply hubs to major demand centers.

As of December 31, 2019, our assets consisted of the following:

- BP Two Pipeline Company LLC, which owns the BP#2 crude oil pipeline system ("BP2").
- BP River Rouge Pipeline Company LLC, which owns the Whiting to River Rouge refined products pipeline system ("River Rouge").
- BP D-B Pipeline Company LLC, which owns the Diamondback diluent pipeline system ("Diamondback"). BP2, River Rouge, and Diamondback are in the Midwest region of the United States, and together are referred to as the "Wholly Owned Assets".
- A 28.5% ownership interest in Mars Oil Pipeline Company, LLC ("Mars"), which owns a major corridor crude oil pipeline system in the Gulf of Mexico.
- A 65% managing member interest in Mardi Gras Transportation System Company, LLC ("Mardi Gras"), which holds the following investments in joint ventures located in the Gulf of Mexico:
  - A 56% ownership interest in Caesar Oil Pipeline Company, LLC ("Caesar"),
  - A 53% ownership interest in Cleopatra Gas Gathering Company, LLC ("Cleopatra"),
  - A 65% ownership interest in Proteus Oil Pipeline Company, LLC ("Proteus"), and,
  - A 65% ownership interest in Endymion Oil Pipeline Company, LLC ("Endymion"). Together Endymion, Caesar, Cleopatra and Proteus are referred to as the "Mardi Gras Joint Ventures."
- A 22.7% ownership interest in Ursa Oil Pipeline Company, LLC ("Ursa").
- A 25% ownership interest in KM Phoenix Holdings, LLC ("KM Phoenix").

We generate the majority of our revenue by charging fees for the transportation of crude oil, refined products and diluent through our pipelines under long-term agreements. We do not engage in the marketing and trading of any commodities. All operations are conducted in the United States and all our long-lived assets are in the United States. Our operations consist of one reportable segment.

Certain businesses of ours are subject to regulation by various authorities including, but not limited to the Federal Energy Regulatory Commission ("FERC"). Regulatory bodies exercise statutory authority over matters such as common carrier tariffs, construction, rates and ratemaking and agreements with customers.

Acquisition of Equity Interests

On October 1, 2018, pursuant to an Interest Purchase Agreement (the "Interest Purchase Agreement") with BP Products North America Inc. ("BP Products"), BP Offshore Pipelines Company LLC ("BP Offshore"), and BP Pipelines, we completed the acquisition of:

- (i) an additional 45.0% interest in Mardi Gras, from BP Pipelines,
- (ii) a 22.7% interest in Ursa, from BP Offshore, and
- (iii) a 25% interest in KM Phoenix, from BP Products.

These assets were acquired in exchange for aggregate consideration of $468 million funded with borrowings under our revolving credit facility. The purchase was accounted for as a transaction between entities under common control; as a result, we recognized the acquired assets at their historical carrying value.

How We Generate Revenue

Onshore Assets

We generate revenue on our onshore pipeline assets through published tariffs (regulated by the Federal Energy Regulatory Commission ("FERC")) applied to volumes moved and some on contracted rates applied to volumes moved.

We have entered into a throughput and deficiency agreement with our affiliate BP Products North America, Inc. ("BP Products"), an indirect wholly owned subsidiary of BP, for transporting diluent on the Diamondback pipeline under a joint tariff agreement and a dedication agreement with a third-party carrier. These agreements include a minimum volume requirement, under which BP Products has committed to pay us an incentive rate for a fixed minimum volume during the twelve-month running period from July 1, 2017 and each successive twelve-month period thereafter through June 30, 2021, whether or not such volumes are physically shipped through Diamondback. The parties have the option to allow the two agreements to renew annually for one additional year by not sending written notice of termination six months prior to the expiration date.

We have entered into additional throughput and deficiency agreements with BP Products for each of our three wholly owned pipeline systems at BP2, River Rouge and Diamondback. Under these fee-based agreements, we provide transportation services to BP Products, in exchange for BP Products' commitment to pay us the applicable tariff rates for the minimum monthly volumes, whether or not such volumes are physically shipped by BP Products through our pipelines. BP Products is allowed to make up for the monthly deficiency within the same calendar year during the initial term ending December 31, 2020. Adjustment to the monthly deficiency payments remitted to us by BP Products, if any, is determined at the end of each calendar year based on the actual volume transported during such period. These agreements will not renew and will expire based on the contract terms on December 31, 2020. The Partnership is reviewing its options with respect to these agreements.

KM Phoenix has terminals located across the United States within key product trading hubs and highly strategic markets that support BP's refining, trading and marketing businesses. KM Phoenix has terminals located near key product trading hubs in New York, Chicago and the San Francisco Bay area. KM Phoenix serves gasoline and diesel needs for New York, Chicago, San Francisco, St Louis, Atlanta, Baltimore, Indianapolis Cincinnati and Dayton, Ohio. KM Phoenix provides storage for production from BP's three refineries. Seven of KM Phoenix's terminals are supplied directly by BP's refineries and four terminals are directly supplied from BP's Whiting Refinery. KM Phoenix generates revenue primarily from truck rack throughput, tank leasing, butane blending and pipeline transshipments.

Offshore Assets

Many of the contracts supporting our offshore assets include fee-based life-of-lease transportation dedications and require producers to transport all production from the specified fields connected to the pipeline for the life of the related oil lease without a minimum volume commitment. This agreement structure means that the dedicated production cannot be transported by any other means, such as barges or another pipeline. The Mars system has a combination of FERC-regulated tariff rates, intrastate rates, and contractual rates that apply to throughput movements and inventory management fees for excess inventory, and certain of those rates may be indexed with the FERC rate. Two of the Mars agreements also include provisions to guarantee a return to the pipeline to enable the pipeline to recover its investment, despite the uncertainty in production volumes, by providing for an annual transportation rate adjustment over a fixed period of time to achieve a fixed rate of return. The calculation for the fixed rate of return is based on actual project costs and operating costs. At the end of the fixed period, the

rate will be locked in at a rate no greater than the last calculated rate and adjusted annually thereafter at a rate no less than zero percent and no greater than the FERC index.

The Proteus and Caesar pipelines have an order from the FERC declaring them to be contract carriers with negotiated rates and services. On Proteus and Caesar, the fees for the anchor shippers, which account for a majority of the volumes dedicated to Proteus and Caesar, respectively, were set for the life of the lease over the original lease volumes dedicated to Proteus and Caesar, and are not subject to annual escalation under their oil transportation contracts. The shippers have firm space that varies annually corresponding to their requested maximum daily quantity forecasts. The majority of our revenues on these pipelines are generated by our anchor shippers based on the specified fee for all transported volumes covered by oil transportation contracts with each shipper. Contracts entered into in connection with later connections to Proteus and Caesar may have different terms than the anchor shippers, including rates that vary with inflation.

Cleopatra is also a contract carrier. Each shipper on Cleopatra has a contract with negotiated rates. The rates are fixed for the anchor shippers' dedicated leases, are not subject to annual escalation and generate the majority of Cleopatra's revenues. Contracts for field connections for other shippers contain a variety of rate structures.

Endymion is currently a contract carrier. However, it could be subject to intrastate or FERC jurisdiction under certain circumstances in the future. Endymion generates the majority of its revenues from contractual fees applied to the transportation of oil into storage and from fees applied to per barrel movements of oil out of storage (including volume incentive discounts for larger shippers using storage). The rates are fixed for the anchor shippers' agreements, are not subject to annual escalation and generate the majority of Endymion's revenues. Agreements for other shippers may have different terms than the anchor shippers, including rates that may vary with inflation.

Ursa is a crude oil gathering pipeline system that provides gathering and transportation services extending from the Ursa Tension Leg Platform at Mississippi Canyon Block 809 to a connection with the Mars Oil Pipeline system at West Delta Block 143. From West Delta Block 143 oil is transported to Chevron's Fourchon terminal and LOOP's Clovelly terminal.

Fixed Loss Allowance and Inventory Management Fees

The tariffs applicable to BP2 and Mars include a fixed loss allowance ("FLA"). An FLA factor per barrel, a fixed percentage, is a separate fee under the crude oil tariffs to cover evaporation, crude viscosity, temperature differences and other losses in transit. As crude oil is transported, we earn additional income based on the applicable FLA factor and the volume transported by the customer and the applicable prices. Under the tariff applicable to BP2 and Mars, allowance oil related revenue is recognized using the average market price for the relevant type of crude oil during the month the product is transported.

In addition, we are entitled to inventory management fees for Louisiana offshore oil port storage used by Endymion and Mars.

How We Evaluate Our Operations

Our management uses a variety of financial and operating metrics to analyze our performance. These metrics are significant factors in assessing our operating results and profitability and include: (i) safety and environmental metrics, (ii) revenue (including FLA) from throughput and utilization; (iii) operating expenses and maintenance spend; (iv) Adjusted EBITDA (as defined below); and (v) cash available for distribution.

Preventative Safety and Environmental Metrics

We are committed to maintaining and improving the safety, reliability and efficiency of our operations. We have implemented reporting programs requiring all employees and contractors of our Parent who provide services to us to record environmental and safety-related incidents. Our management team uses these existing programs and data to evaluate trends and potential interventions to deliver on performance targets. We integrate health, occupational safety, process safety and environmental principles throughout our operations in order to reduce and eliminate environmental and safety-related incidents.

Throughput

The amount of revenue our business generates primarily depends on our fee-based transportation agreements with shippers, our tariffs and the volumes of crude oil, natural gas, refined products and diluent that we handle on our pipelines.

The volumes that we handle on our pipelines are primarily affected by the supply of, and demand for, crude oil, natural gas, refined products and diluent in the markets served directly or indirectly by our assets. Our results of operations are impacted by our ability to:

- utilize any remaining unused capacity on, or add additional capacity to, our pipeline systems;
- increase throughput volumes on our pipeline systems by making connections to existing or new third-party pipelines or other facilities, primarily driven by the anticipated supply of and demand for crude oil, natural gas, refined products and diluent;
- identify and execute organic expansion projects; and
- increase throughput volumes via acquisitions.

Storage Utilization

Storage utilization is a metric that we use to evaluate the performance of our storage and terminalling assets. We define storage utilization as the percentage of the contracted capacity in barrels compared to the design capacity of the tank.

Operating Expenses and Total Maintenance Spend

Operating Expenses

Our management seeks to maximize our profitability by effectively managing our operating expenses. These expenses are comprised primarily of labor expenses (including contractor services), general materials, supplies, minor maintenance, utility costs (including electricity and fuel) and insurance premiums. Utility costs fluctuate based on throughput volumes and the grades of crude oil and types of refined products we handle. Our other operating expenses generally remain relatively stable across broad ranges of throughput volumes, but can fluctuate from period to period depending on the mix of activities performed during that period.

Total Maintenance Spend - Wholly Owned Assets

We calculate Total Maintenance Spend as the sum of maintenance expenses and maintenance capital expenditures, excluding any reimbursable maintenance capital expenditures. We track these expenses on a combined basis because it is useful to understanding our total maintenance requirements. Total Maintenance Spend for the years ended December 31, 2019 and 2018 is shown in the table below:

	Years Ended December 31,	
	2019	2018
	(in thousands of dollars)	
Wholly Owned Assets		
Maintenance expenses	$ 1,754	$ 2,737
Maintenance capital expenditures	1,081	1,604
Maintenance capital recovery (1)	(282)	—
Total Maintenance Spend - Wholly Owned Assets	$ 2,553	$ 4,341

(1) Relates to the portion of maintenance capital for Griffith Station Incident reimbursable by insurance.

We seek to maximize our profitability by effectively managing our maintenance expenses, which consist primarily of safety and environmental integrity programs. We seek to manage our maintenance expenses on the pipelines we operate by scheduling maintenance over time to avoid significant variability in our maintenance expenses and minimize their impact on our cash flows, without compromising our commitment to safety and environmental stewardship.

Our maintenance expenses represent the costs we incur that do not significantly extend the useful life or increase the expected output of our property, plant and equipment. These expenses include pipeline repairs, replacements of immaterial sections of pipelines, inspections, equipment rentals and costs incurred to maintain compliance with existing safety and environmental standards, irrespective of the magnitude of such compliance expenses. Our maintenance expenses vary significantly from

period to period because certain expenses are the result of scheduled safety and environmental integrity programs, which occur on a multi-year cycle and require substantial outlays.

Our maintenance capital expenditures represent expenditures to sustain operating capacity or operating income over the long term. Examples of maintenance capital expenditures include expenditures made to purchase new or replacement assets or extend the useful life of our assets. These expenditures includes repairs and replacements of storage tanks, replacements of significant sections of pipelines and improvements to an asset's safety and environmental standards.

Adjusted EBITDA and Cash Available for Distribution

We define Adjusted EBITDA as net income before net interest expense, income taxes, gain or loss from disposition of property, plant and equipment, and depreciation and amortization, plus cash distributed to the Partnership from equity method investments for the applicable period, less income from equity method investments. We define Adjusted EBITDA attributable to the Partnership as Adjusted EBITDA less Adjusted EBITDA attributable to non-controlling interests. We present these financial measures because we believe replacing our proportionate share of our equity method investments' net income with the cash received from such equity method investments more accurately reflects the cash flow from our business, which is meaningful to our investors.

We compute and present cash available for distribution and define it as Adjusted EBITDA attributable to the Partnership less maintenance capital expenditures attributable to the Partnership, net interest paid/received, cash reserves, income taxes paid and net adjustments from volume deficiency payments attributable to the Partnership. Cash available for distribution does not reflect changes in working capital balances.

Adjusted EBITDA and cash available for distribution are non-GAAP ("GAAP" refers to United States generally accepted accounting principles) supplemental financial measures, which are metrics that management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, may use to assess:

- our operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to historical cost basis or financing methods;
- the ability of our business to generate sufficient cash to support our decision to make distributions to our unitholders;
- our ability to incur and service debt and fund capital expenditures; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities.

We believe that the presentation of Adjusted EBITDA and cash available for distribution provides useful information to investors in assessing our financial condition and results of operations. The GAAP measures most directly comparable to Adjusted EBITDA and cash available for distribution are net income and net cash provided by operating activities, respectively. Adjusted EBITDA and cash available for distribution should not be considered as an alternative to GAAP net income or net cash provided by operating activities.

Adjusted EBITDA and cash available for distribution have important limitations as analytical tools because they exclude some but not all items that affect net income and net cash provided by operating activities. You should not consider Adjusted EBITDA or cash available for distribution in isolation or as a substitute for analysis of our results as reported under GAAP. Additionally, because Adjusted EBITDA and cash available for distribution may be defined differently by other companies in our industry, our definition of Adjusted EBITDA and cash available for distribution may not be comparable to similarly titled measures of other companies, thereby diminishing its utility. Please read "Reconciliation of Non-GAAP Measures" section below for the reconciliation of net income and cash provided by operating activities to Adjusted EBITDA and cash available for distribution.

Factors Affecting Our Business

Our business can be negatively affected by sustained downturns or slow growth in the economy in general, and is impacted by shifts in supply and demand dynamics, the mix of services requested by the customers of our pipelines, competition and changes in regulatory requirements affecting our customers' operations.

We believe the key factors that impact our business are the supply of and/or demand for crude oil, natural gas, refined products and diluent in the markets in which our business operates.

We also believe that our customers' requirements and government regulation of crude oil, natural gas, refined products and diluent pipeline systems, discussed in more detail below, play an important role in how we manage our operations and implement our long-term strategies.

Changes in Crude Oil and Natural Gas Sourcing and Refined Product and Diluent Demand Dynamics

To effectively manage our business, we monitor our market areas for both short-term and long-term shifts in crude oil, natural gas, refined products and diluent supply and demand. Changes in crude oil and natural gas supply such as new discoveries of reserves, declining production in older fields and the introduction of new sources of crude oil and natural gas supply, investment programs of our shippers to maintain or increase production, along with global supply and demand fundamentals such as the strength of the U.S. dollar, weather conditions and competition among oil producing countries for market share, affect the demand for our services from both producers and consumers. One of the strategic advantages of our crude oil pipeline system is its ability to transport attractively priced crude oil from multiple supply sources. Our crude oil shippers periodically change the relative mix of crude oil grades delivered to the refineries and markets served by our pipelines. While these changes in the sourcing patterns of crude oil transported are reflected in changes in the relative volumes of crude oil by type handled by our pipelines, our crude oil transportation revenue is primarily affected by changes in overall crude oil supply and demand dynamics.

Similarly, our refined products pipeline system has the ability to serve multiple demand centers. Our refined products shippers periodically change the relative mix of refined products shipped on our refined products pipeline system, as well as the destination points, based on changes in pricing and demand dynamics. While these changes in shipping patterns are reflected in relative types of refined products handled by our pipeline, our total product transportation revenue is primarily affected by changes in overall refined products and diluent supply and demand dynamics.

Further, the volumes of crude oil that we transport on our BP2 system and refined products and diluent that we distribute on our River Rouge and Diamondback systems depend substantially on the economics of available crude supply for the Whiting Refinery and the economics for refined products and diluent demand in the markets that the pipelines serve. These economics are affected by numerous factors beyond our control, including apportionment on the Enbridge mainline (which offers all of its capacity on an uncommitted basis). In addition, events such as ongoing maintenance at the Whiting Refinery and apportionment on a third-party pipeline, such as the Enbridge mainline, can cause lower throughput on our BP2 system. Volumes are also affected by maintenance and corridor shutdowns due to tie-ins, among other things.

As these supply and demand dynamics shift, we anticipate that we will continue to actively pursue projects that link new sources of supply to producers and consumers. Similarly, as demand dynamics change, we anticipate that we will create new services or capacity arrangements that meet customer requirements.

Changes in Commodity Prices

We do not engage in the marketing and trading of any commodities. We do not take ownership of crude oil, natural gas, refined products or diluent. As a result, our exposure to commodity price fluctuations is limited to the FLA provisions in our tariffs, which are only applicable to certain of our crude oil pipelines. We also have indirect exposure to commodity price fluctuations to the extent such fluctuations affect the shipping patterns of our customers.

Customers

BP is our primary customer. Total revenue from BP represented 97.6% and 97.6% of our revenues in the years ended December 31, 2019 and 2018, respectively. BP's volumes represented approximately 95.1% and 94.9% of the aggregate total volumes transported on the Wholly Owned Assets for the years ended December 31, 2019 and 2018, respectively.

In addition, we transport and store crude oil, natural gas and diluent for a mix of third-party customers, including crude oil producers, refiners, marketers and traders, and our assets are connected to other crude oil, natural gas and diluent pipeline systems. In addition to serving directly connected Midwestern U.S. and Gulf Coast markets, our pipelines have access to customers in various regions of the United States and Canada through interconnections with other major pipelines. Our customers use our transportation and terminalling services for a variety of reasons. Producers of crude oil require the ability to deliver their product to market and frequently enter into firm transportation contracts to ensure that they will have sufficient capacity available to deliver their product to delivery points with greatest market liquidity. Marketers and traders generate income from buying and selling crude oil, natural gas, refined products and diluent to capitalize on price differentials over time or between markets. Our customer mix can vary over time and largely depends on the crude oil, natural gas, refined products and diluent supply and demand dynamics in our markets.

Regulation

Our interstate common carrier pipelines are subject to regulation by various federal, state and local agencies including the FERC, the Environmental Protection Agency ("EPA") and the Department of Transportation ("DOT"). For more information on federal, state and local regulations affecting our business, please read Part I, Items 1 and 2. *Business and Properties* within this report.

Acquisition Opportunities

We plan to pursue acquisitions of complementary assets from BP as well as third parties. We also may pursue acquisitions jointly with BP Pipelines. BP Pipelines has granted us a right of first offer with respect to its retained ownership interest in Mardi Gras and all of its interests in midstream pipeline systems and assets related thereto in the contiguous United States and offshore Gulf of Mexico that were owned by BP Pipelines at the closing of the IPO. Neither BP nor any of its affiliates are under any obligation, however, to sell or offer to sell us additional assets or to pursue acquisitions jointly with us, and we are under no obligation to buy any additional assets from them or to pursue any joint acquisitions with them. We will focus our acquisition strategy on transportation and midstream assets within the crude oil, natural gas and refined products sectors. We believe that we are well positioned to acquire midstream assets from BP, and particularly BP Pipelines, as well as third parties, should such opportunities arise. Identifying and executing acquisitions will be a key part of our strategy. However, if we do not make acquisitions on economically acceptable terms, our future growth will be limited, and the acquisitions we do make may reduce, rather than increase, our available cash.

Financing

We expect to fund future capital expenditures primarily from external sources, including borrowings under our $600 million credit facilities and potential future issuances of equity and debt securities.

We intend to make cash distributions to our unitholders at a minimum distribution rate of $0.2625 per unit per quarter ($1.05 per unit on an annualized basis). Based on the terms of our cash distribution policy, we expect that we will distribute to our unitholders and our General Partner, as the holder of our incentive distribution rights, most of the cash generated by our operations.

Griffith Station Incident

On June 13, 2019, a building fire occurred at the Griffith Station on BP2. Management has performed an evaluation of the assets and determined that an impairment is required. A charge of $4.4 million for the impairment was recorded under "Impairment and other, net" on our consolidated statements of operations for the year ended December 31, 2019. In addition, we incurred $1.6 million as a response expense for the year ended December 31, 2019. Our assets are insured with a deductible of $1.0 million per incident. We have accrued an offsetting insurance receivable of $5.0 million resulting in a net charge of $1.0 million to "Impairment and other, net" for the year ended December 31, 2019. The insurance receivable is recorded as $4.3 million under "Other current assets" and $0.7 million under "Other assets" on our consolidated balance sheet as of December 31, 2019. The fire caused a temporary throughput restriction that was covered by our MVC. The throughput restriction was resolved within two weeks and volumes returned to normal operating levels.

Results of Operations

The following tables and discussion contain a summary of our consolidated results of operations for the years ended December 31, 2019 and 2018.

	Years Ended December 31,	
	2019	2018
	(in thousands of dollars)	
Revenue	$ 128,468	$ 116,439
Costs and expenses		
Operating expenses	19,977	16,488
Maintenance expenses	1,754	2,737
General and administrative	16,867	18,654
Depreciation	2,630	2,658
Impairment and other, net	1,000	—
Property and other taxes	722	483
Lease expense	71	61
Total costs and expenses	43,021	41,081
Operating income	85,447	75,358
Income from equity method investments	116,747	94,361
Interest expense, net	15,127	4,043
Net income	187,067	165,676
Less: Net income attributable to non-controlling interests	19,183	32,619
Net income attributable to the Partnership subsequent to the IPO	$ 167,884	$ 133,057
Adjusted EBITDA(1)	$ 219,480	$ 195,820
Adjusted EBITDA attributable to the Partnership(1)	$ 196,289	$ 149,408

(1) See Reconciliations of Non-GAAP Measures below.

	Years Ended December 31,	
Pipeline throughput (thousands of barrels per day)(1)(2)	**2019**	**2018**
BP2	300	277
Diamondback	63	62
River Rouge	73	66
Total Wholly Owned Assets	436	405
Mars	546	516
Caesar	194	198
Cleopatra(3)	24	23
Proteus	175	172
Endymion	175	172
Mardi Gras Joint Ventures	568	565
Ursa	107	74
Average revenue per barrel ($ per barrel)(2)(4)		
Total Wholly Owned Assets	$ 0.77	$ 0.73
Mars	1.31	1.19
Mardi Gras Joint Ventures	0.65	0.66
Ursa	0.87	0.83

(1) Pipeline throughput is defined as the volume of delivered barrels.

(2) Interests in Ursa was contributed to the Partnership on October 1, 2018 and throughput and average revenue per barrel is presented on a 100% basis for the year ended December 31, 2018.

(3) Natural gas is converted to oil equivalent at 5.8 million cubic feet per one thousand barrels.

(4) Based on reported revenues from transportation and allowance oil divided by delivered barrels over the same period.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Total revenue increased by $12.0 million, or 10.3%, in the year ended December 31, 2019, compared to the year ended December 31, 2018, primarily due to (i) $7.5 million or 13.3% increase in BP throughput revenue from BP2 resulting from a 8.4 million or 8.4% increase in throughput volume and a 4.5% increase in average tariff, (ii) a $5.4 million or 16.7% increase in BP throughput revenue from River Rouge resulting from a 2.4 million or 10.1% increase in throughput volume and a 5.9% increase in average tariff, (iii) a $0.2 million or 8.7% increase in third party throughput volume on Diamondback resulting from a 0.2 million or 3.1% increase in throughput volume and a 5.5% increase in average tariff and (iv) a $1.6 million or 17.8% increase in FLA revenue from BP2 driven by an increase in throughput volume and an increase in FLA price realized. The overall increase in revenue was partially offset by (i) a $2.4 million or 30.4% decrease in deficiency revenue from our throughput and deficiency agreements with BP due to the increased volumes described above and (ii) a $0.2 million or 2.1% decrease in related party throughput revenue from Diamondback due to a 0.2 million or 1.1% decrease in related party throughput volume combined with a 1% reduction in the average tariff for related party throughput.

Operating expenses increased by $3.5 million, or 21.2%, in the year ended December 31, 2019, compared to the year ended December 31, 2018, primarily due to (i) a $2.0 million increase in insurance expense due to insurance coverage needed for assets acquired in the October 2018 acquisition transaction, (ii) a $0.8 million increase in variable expense due to higher volumes and (iii) an increase of $0.7 million in other allocated charges.

Maintenance expenses decreased by $1.0 million, or 35.9%, in the year ended December 31, 2019, compared to the year ended December 31, 2018, primarily as a result of decrease in spend due to normal scheduling variability in project costs, corrosion work and inspection costs.

General and administrative expenses decreased by $1.8 million, or 9.6%, in the year ended December 31, 2019, compared to the year ended December 31, 2018 primarily as a result of lower acquisition expenses.

Impairment expense increased by $1.0 million in the year ended December 31, 2019 compared to the year ended December 31, 2018 due to the impairment charge taken on the Griffith Station.

Income from equity method investments increased by $22.4 million, or 23.7%, in the year ended December 31, 2019 compared to the year ended December 31, 2018 due to higher earnings from Mars and the Mardi Gras Joint Ventures. In addition, the earnings from other equity method investments in 2019 were included for the entire year while earnings from other equity method investments in 2018 were only included for the period from October 1, 2018 through December 31, 2018.

Interest expense, net was $15.1 million in the year ended December 31, 2019 compared to $4.0 million in the year ended December 31, 2018 due to the $468 million of borrowings used to fund our acquisition on October 1, 2018 under our $600.0 million revolving credit facility agreement entered into in connection with our IPO. The net interest expense consisted of interest expense and commitment and utilization fees, which were partially offset by interest income on cash deposits held by BPMP.

Reconciliation of Non-GAAP Measures

The following tables present a reconciliation of Adjusted EBITDA to net income and to net cash provided by operating activities, the most directly comparable GAAP financial measures, for each of the periods indicated.

	Years Ended December 31,	
	2019	**2018**
	(in thousands of dollars)	
Reconciliation of Adjusted EBITDA and Cash Available for Distribution to Net Income		
Net income	$ 187,067	$ 165,676
Add:		
Depreciation	2,630	2,658
Interest expense, net	15,127	4,043
Cash distributions received from equity method investments — Mardi Gras Joint Ventures	66,261	67,591
Cash distributions received from equity method investments — Mars	53,412	47,538
Cash distributions received from equity method investments — Others	11,730	2,675
Less:		
Income from equity method investments — Mardi Gras Joint Ventures	54,810	47,935
Income from equity method investments — Mars	51,153	43,867
Income from equity method investments — Others	10,784	2,559
Adjusted EBITDA	219,480	195,820
Less:		
Adjusted EBITDA attributable to non-controlling interests	23,191	46,412
Adjusted EBITDA attributable to the Partnership	196,289	149,408
Add:		
Maintenance capital recovery(1)	282	—
Less:		
Net interest paid/(received)	15,112	50
Maintenance capital expenditures	1,081	1,604
Cash reserves(2)	—	3,882
Cash available for distribution attributable to the Partnership	$ 180,378	$ 143,872

(1) Relates to the portion of maintenance capital for Griffith Station Incident reimbursable by insurance.
(2) Acquisition financing expenses.

	Years Ended December 31,	
	2019	2018
	(in thousands of dollars)	
Reconciliation of Adjusted EBITDA and Cash Available for Distribution to Net Cash Provided by Operating Activities		
Net cash provided by operating activities	$ 189,332	$ 173,783
Add:		
Interest expense, net	15,127	4,043
Distribution in excess of earnings from equity method investments	11,538	19,670
Less:		
Change in other assets and liabilities	(4,771)	1,499
Non-cash adjustments	288	177
Impairment and other, net(1)	1,000	—
Adjusted EBITDA	219,480	195,820
Less:		
Adjusted EBITDA attributable to non-controlling interests	23,191	46,412
Adjusted EBITDA attributable to the Partnership subsequent to the IPO	196,289	149,408
Add		
Maintenance capital recovery(2)	282	—
Less:		
Net interest paid/(received)	15,112	50
Maintenance capital expenditures	1,081	1,604
Cash reserves(3)	—	3,882
Cash available for distribution attributable to the Partnership	$ 180,378	$ 143,872

(1) This includes $6.0 million of costs related to the Griffith Station Incident (impairment charge of $4.4 million and $1.6 million as a response expense), net of $5.0 million in offsetting insurance receivable. The net charge of $1.0 million reflects our insurance deductible.
(2) Relates to the portion of maintenance capital for Griffith Station Incident reimbursable by insurance.
(3) Acquisition financing expenses.

Capital Resources and Liquidity

Following the IPO, we maintain separate bank accounts, and BP Pipelines continues to provide treasury services on our General Partner's behalf under our omnibus agreement. We expect our ongoing sources of liquidity to include cash generated from operations (including distribution from our equity method investments), borrowings under our revolving credit facility and issuances of debt and additional equity securities. The entities in which we own an interest may also incur debt. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements and to make quarterly cash distributions.

Based upon current expectations for the fiscal year 2020, we believe that our cash on hand, cash flow from operations and borrowings available under our credit facility will be sufficient to fund our operations for 2020. As of December 31, 2019, we had $98.8 million cash on hand and $132.0 million available under our credit facility, for a total liquidity of $230.8 million.

The board of directors of our general partner has adopted a cash distribution policy pursuant to which we intend to pay a minimum quarterly distribution of $0.2625 per unit per quarter, which equates to approximately $27.5 million per quarter, or $110.0 million per year in the aggregate, based on the number of common and subordinated units currently outstanding. We intend to pay such distributions to the extent we have sufficient cash after the establishment of cash reserves and the payment of our expenses, including payments to our general partner and its affiliates.

Revolving Credit Facility

On October 30, 2017, the Partnership entered into a $600.0 million unsecured revolving credit facility agreement (the "credit facility") with an affiliate of BP. The credit facility terminates on October 30, 2022 and provides for certain covenants, including the requirement to maintain a consolidated leverage ratio, which is calculated as total indebtedness to consolidated EBITDA (as defined in the credit facility), not to exceed 5.0 to 1.0, subject to a temporary increase in such ratio to 5.5 to 1.0 in connection with certain material acquisitions. As of December 31, 2019, the Partnership was in compliance with the covenants contained in the credit facility. In addition, the limited liability company agreement of our General Partner requires the approval of BP Holdco prior to the incurrence of any indebtedness that would cause our leverage ratio to exceed 4.5 to 1.0.

The credit facility also contains customary events of default, such as (i) nonpayment of principal when due, (ii) nonpayment of interest, fees or other amounts, (iii) breach of covenants, (iv) misrepresentation, (v) cross-payment default and cross-acceleration (in each case, to indebtedness in excess of $75.0 million) and (vi) insolvency. Additionally, the credit facility limits our ability to, among other things: (i) incur or guarantee additional debt, (ii) redeem or repurchase units or make distributions under certain circumstances; and (iii) incur certain liens or permit them to exist. Indebtedness under this facility bears interest at the 3-month London Interbank Offered Rate ("LIBOR") plus 0.85%. This facility includes customary fees, including a commitment fee of 0.10% and a utilization fee of 0.20%.

In connection with our acquisition in the fourth quarter of 2018, we borrowed $468.0 million from the credit facility and this amount was outstanding as of December 31, 2019.

On February 20, 2019, we entered into a Credit Facility Waiver Agreement ("First Waiver Agreement") whereby the lender waived certain terms on our outstanding $468.0 million borrowings. The original loan repayment date of March 29, 2019 was waived and amended and modified to April 1, 2020.

On May 3, 2019, we entered into a Second Credit Facility Waiver Agreement ("Second Waiver Agreement") whereby the lender waived certain terms on our outstanding $468.0 million borrowings. The amended loan repayment date of April 1, 2020 was waived and amended and modified to November 30, 2020. Accrued interest will be paid on the 25th day of April, July, October and January of each year. Any remaining interest will be paid on November 30, 2020. All other terms of the credit facility remain the same.

On February 24, 2020, we entered into a $468.0 million Term Loan Facility Agreement ("term loan") with an affiliate of BP. Proceeds will be used to repay outstanding borrowings under our credit facility. The term loan has a final repayment date of February 24, 2025 and provides for certain covenants, including the requirement to maintain a consolidated leverage ratio, which is calculated as total indebtedness to consolidated EBITDA, not to exceed 5.0 to 1.0, subject to a temporary increase in such ratio to 5.5 to 1.0 in connection with certain material acquisitions. Simultaneous with this transaction, we entered into a First Amendment to Short Term Credit Facility Agreement ("First Amendment") whereby the lender added a provision that indebtedness under both the term loan and credit facility shall not exceed $600.0 million. All other terms of the credit facility remain the same.

Cash Flows from Our Operations

Operating Activities. We generated $189.3 million in cash flow from operating activities in the year ended December 31, 2019, compared to the $173.8 million generated in the year ended December 31, 2018. The $15.5 million increase in cash flows from operations primarily resulted from an increase in net income driven by income and distributions from equity method investments and higher operating income from our Wholly Owned Assets. The overall increase of $24.1 million was partially offset by an increase of $1.4 million for accounts receivable, a decrease of $3.3 million from accounts payables and a decrease of $3.9 million from accrued liabilities.

Investing Activities. Our cash flows from investing activities were $10.5 million in the year ended December 31, 2019, compared to $69.2 million used in the year ended December 31, 2018. The $79.6 million increase in from inflow from investing activities is primarily due to not having any acquisition activities during the year ended December 31, 2019.

Financing Activities. Our cash flows used in financing activities were $157.9 million in the year ended December 31, 2019 and $80.3 million in the year ended December 31, 2018. The $77.6 million increase in cash outflows is primarily due to distributions to our Parent and to unitholders and non-controlling interests, in addition to not having proceeds from external financing.

Capital Expenditures

Our operations can be capital intensive, requiring investment to expand, upgrade or enhance existing operations and to meet environmental and operational regulations. Our capital requirements consist of Maintenance Capital Expenditures and Expansion Capital Expenditures, both as defined in our partnership agreement. We are required to distinguish between Maintenance Capital Expenditures and Expansion Capital Expenditures in accordance with our partnership agreement.

A summary of our capital expenditures, for the years ended December 31, 2019 and 2018, is shown in the table below:

	Years Ended December 31,	
	2019	2018
	(in thousands of dollars)	
Cash spent on maintenance capital expenditures	$ 1,081	$ 1,604
(Decrease)/Increase in accrued capital expenditures	55	145
Total capital expenditures incurred	$ 1,136	$ 1,749

Our capital expenditures for 2019 were $1.1 million, primarily associated with the following projects:

- Projects to support critical equipment reliability for River Rouge;
- Densitometer installations at South Bend, Jackson, Dearborn, Buckeye Detroit and River Rouge; and
- Griffith Station recovery, including a building, lighting, power, relay and PLC panels.

Our capital expenditures for 2018 were $1.7 million, primarily associated with the following projects:

- Update of pipes on Whiting for River Rouge; and
- Corrosion work on Whiting to River Rouge.

All of our capital expenditures in the years ended December 31, 2019 and 2018 were maintenance expenditures. We did not incur any expansion capital expenditures during such periods.

We anticipate that our 2020 maintenance capital expenditures will be funded with cash from operations and our borrowings under the credit facility.

Contractual Obligations

A summary of our contractual obligations at December 31, 2019, is shown in the table below:

(in thousands of dollars)	Total	Less than 1 year	Years 2 to 3	Years 4 to 5	More than 5 years
Credit facility[1]	$ 472,069	$ 470,957	$ 1,112	$ —	$ —
Rights-of-way	3,036	78	156	156	2,646
Operating leases	676	63	65	69	479
Total	$ 475,781	$ 471,098	$ 1,333	$ 225	$ 3,125

(1) Includes principal and interest expense. See Note 9 - *Debt*.

Off-Balance Sheet Arrangements

We have not entered into any transactions, agreements or other contractual arrangements that would result in off-balance sheet liabilities.

Critical Accounting Policies and Estimates

Critical accounting policies are those that are important to our financial condition and require management's most difficult, subjective or complex judgments. Different amounts would be reported under different operating conditions or under alternative assumptions. We have evaluated the accounting policies used in the preparation of the consolidated financial statements of the Partnership and related notes thereto and believe those policies are reasonable and appropriate.

We apply those accounting policies that we believe best reflect the underlying business and economic events, consistent with GAAP. Our more critical accounting policies include those related to revenue recognition and common control transactions.

Inherent in such policies are certain key assumptions and estimates. We periodically update the estimates used in the preparation of the financial statements based on our latest assessment of the current and projected business and general economic environment. Our significant accounting policies are summarized in Note 2 - *Summary of Significant Accounting Policies*, in the *Notes to Consolidated Financial Statements* included in Part II, Item 8 of this report. We believe the following to be our most critical accounting policies applied in the preparation of our financial statements.

Accounting for Equity Method Investments

The Partnership maintains investments in several joint ventures that are accounted for under the equity method of accounting. Under the equity method of accounting, investments are recorded at historical cost as an asset and adjusted for capital contributions, dividends received, and the Partnership's share of the investee's earnings or losses, which is recorded as a component of income from equity method investments. As of December 31, 2019, the Partnership's equity method investments balance was $534.4 million, and for the year ended December 31, 2019, the Partnership's income from equity method investments was $116.7 million.

The Partnership does not have a controlling interest in our investments in joint ventures; however, because of the significance of the investments to our financial statements our management exercises critical judgments when assessing the results of the joint ventures' operations and the accounting judgments made by the operators. This requires management to rely on their experience in the industry and their knowledge of the joint ventures involved in making final assessments on the recognition of operating results as reported to the Partnership by the operators.

Revenue Recognition

Our revenues are primarily generated from crude oil, refined products and diluent transportation services. In general, we recognize revenue from contracts with customers under Topic 606 by applying a five-step model, which includes: (1) identification of the contract; (2) identification of the performance obligations; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations; and (5) recognition of revenue as the entity satisfies the performance obligations.

During the second half of 2017, we entered into multiple long-term fee-based transportation agreements with BP Products, an indirect wholly owned subsidiary of BP. Under these agreements, BP Products has committed to pay us the minimum volumes at the applicable rates for each of the twelve-month measurement periods specified by the applicable agreements whether or not such volumes are physically transported through our pipelines. BP Products is allowed to make up for shortfall volumes during each of the measurement periods.

Contracts with BP Products, including the allowance oil arrangements discussed below, are accounted for as separate arrangements because they do not meet the criteria for combination. We record revenue for crude oil, refined products and diluent transportation over the period in which they are earned (i.e., either physical delivery of product has taken place, or the services designated in the contract have been performed). Revenue from transportation services is recognized upon delivery or receipt based on contractual rates related to throughput volumes. We accrue revenue based on services rendered but not billed for that accounting month.

Billings to BP Products for deficiency volumes under its minimum volume commitments, if any, are recorded in deferred revenue and credits on our consolidated balance sheets, as BP Products has the right to make up the deficiency volumes within the measurement period specified by the agreements. We consider this deferred revenue as breakage revenue and considered three methods of determining when or if to recognize the amounts into revenue. We recognize the breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

The unfulfilled obligations in our revenue contracts are our obligations to transport certain volumes of crude or diluent molecules (throughput) for our customers throughout the term of each contract. The terms of the contract require the customer to deliver a specified quantity of molecules or minimum volume each day with a right to make up any short fall within the 12 month measurement period of each contract. At the end of each quarterly reporting period we analyze the customer's actual shipments compared to their minimum volume commitments to measure the level of fulfillment toward the contracted minimum volume commitments. This analysis also includes the review of the capacity of each pipeline available for the customer to deliver the required volume to make up for any shortfall, current forecast of the customers' future shipments, an assessment of whether management thinks the customers can make up for the shortfall and any impact market conditions have on the probability of customers making up the shortfall. If our assessment concludes that it is remote that the customer will make up for volume shortfalls and require performance of the unfulfilled obligations, the appropriate level of breakage is recognized into revenue.

Common Control Transactions

Assets and businesses acquired from our Parent and its subsidiaries are accounted for as common control transactions whereby the net assets acquired are included in our consolidated balance sheets at their historical carrying value. BP maintains its accounting records in accordance with International Financial Reporting Standards, ("IFRS"), and therefore, the determination of historical carrying cost of BP's investment in assets under accounting principles generally accepted in the United States of America, ("US GAAP") required management to make judgments, including assessing the impact of the joint venture formation transaction under US GAAP and its impact on the carrying value of the asset in the financial statements.

If any recognized consideration transferred in such a transaction exceeds the historical carrying value of the net assets acquired, the excess is treated as a capital distribution to our Parent, similar to a dividend. If the historical carrying value of the net assets acquired exceeds any recognized consideration transferred including, if applicable, the fair value of any limited partner units issued, such excess is treated as a capital contribution from our Parent.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. Since we do not take ownership of the crude oil, natural gas, and refined products or diluent that we transport for our customers, and we do not engage in the marketing and trading of any commodities, we have limited direct exposure to inventory risks associated with fluctuating commodity prices.

Our tariffs for crude oil shipments include an FLA. We do not take physical possession of the allowance oil as a result of our services, but record the volumes accumulated as a receivable from the customer in the month we provide the transportation services. We consider the FLA as a part of the transportation revenue we receive from the customer.

Allowance oil income is subject to more volatility than transportation revenue, as it is directly dependent on commodity prices. As a result, the income we realize under our FLA provisions will increase or decrease as a result of changes in underlying commodity prices. A $5 per barrel change in each applicable commodity price would have changed revenue by approximately $1.1 million for the year ended December 31, 2019. We do not intend to enter into any hedging agreements to mitigate our exposure to decreases in commodity prices through our FLA.

Interest Rate Risk

Debt that we incur under our credit facility bears interest at the 3-month LIBOR plus 0.85%. The 3-month LIBOR rate exposes us to interest rate risk. Once a request to borrow is completed, our interest rate is fixed through the maturity date of the borrowing, typically six months. To the extent that interest rates increase, interest expense will also increase. At December 31, 2019, the Partnership had $468.0 million in outstanding borrowings under the credit facility with an interest rate of 3.25%. A hypothetical increase of 100 basis points in the interest rate of our debt would impact the Partnership's annual interest expense by approximately $4.7 million, assuming the $468.0 million was outstanding for the entire year.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

BP MIDSTREAM PARTNERS LP

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of BP Midstream Partners GP LLC and
the Partners of BP Midstream Partners LP
Houston, Texas

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of BP Midstream Partners LP and subsidiaries (the "Partnership") as of December 31, 2019 and 2018, the related consolidated statements of operations, changes in equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Partnership's internal control over financial reporting as of December 31, 2019, based on criteria established in the UK Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and our report dated February 27, 2020 expressed an unqualified opinion on the Partnership's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for Equity Method Investments — Refer to Notes 2 and 6 to the financial statements.

Critical Audit Matter Description

The Partnership maintains investments in several joint ventures that are accounted for under the equity method of accounting. Under the equity method of accounting, investments are recorded at historical cost as an asset and adjusted for capital contributions, dividends received, and the Partnership's share of the investee's earnings or losses, which is recorded as a component of income from equity method investments. As of December 31, 2019, the Partnership's equity method investments balance was $534.4 million, and for the year ended December 31, 2019, the Partnership's income from equity method investments was $116.7 million.

We identified the accounting for equity method investments as a critical audit matter because of the significance of the equity method investments to the Partnership's financial statements, and the judgments made by management when assessing the results of the joint ventures' operations and accounting judgments made by the operator of the equity method investments. This required an increased extent of effort, including the need to involve auditors of the joint ventures and senior members of the engagement team.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the accounting for equity method investments that we concluded were significant components included the following, among others:

- We tested the effectiveness of controls related to the accounting for the Partnership's significant equity method investments, which includes management's attendance at joint venture board meetings and their receipt and review of the equity method investment financial statements.

- We evaluated significant equity method investments and income from equity method investments by:
  - Testing transactions occurring related to the equity method investments, such as purchases or sales of additional interests and distributions.
  - Evaluating significant judgments and estimates at the underlying equity method investments through oversight of the auditors of the equity method investees and by having direct discussions with the accounting function of the equity method investees' management.
  - Evaluating the completeness and accuracy of the Partnership's investment in equity method investments and income from equity method investments by obtaining audited financial statements of the joint ventures.
  - Obtaining, reviewing, and retaining information from the auditors of the joint ventures, such as information necessary to understand significant findings or issues identified by such auditors and actions taken to address them and sufficient information to reconcile the financial statement amounts audited by such auditors to the information underlying the Partnership's financial statements.
  - Performing procedures to evaluate subsequent events impacting the equity method investments prior to the date of our auditor's report on the Partnership's financial statements.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
February 27, 2020

We have served as the Partnership's auditor since 2018.

Report of Independent Registered Public Accounting Firm

To the Unitholders and Board of Directors of BP Midstream Partners LP

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of operations, changes in equity and cash flows of BP Midstream Partners LP (the Partnership) for the year ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the Partnership for the year ended December 31, 2017 in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Partnership's auditor from 2017 to 2018.

Chicago, Illinois
March 22, 2018

BP MIDSTREAM PARTNERS LP
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2019	2018
	(in thousands of dollars)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 98,831	$ 56,970
Accounts receivable – third parties	626	325
Accounts receivable – related parties	11,251	9,769
Prepaid expenses	5,124	4,667
Other current assets	4,980	629
Total current assets	120,812	72,360
Equity method investments (Note 6)	534,383	549,039
Property, plant and equipment, net (Note 7)	62,693	68,580
Other assets	4,208	3,224
Total assets	$ 722,096	$ 693,203
LIABILITIES		
Current liabilities		
Accounts payable – third parties	$ 550	$ 607
Accounts payable – related parties	1,717	2,553
Deferred revenues and credits	1,544	1,067
Other current liabilities (Note 8)	6,599	6,900
Total current liabilities	10,410	11,127
Long-term debt (Note 9)	468,000	468,000
Other liabilities	3,456	3,224
Total liabilities	481,866	482,351
Commitments and contingencies (Note 14)		
EQUITY		
Common unitholders – public (2019 – 47,806,563 issued and outstanding; 2018 – 47,802,826 units issued and outstanding)	851,624	836,789
Common unitholders – BP Holdco (2019 and 2018 – 4,581,177 units issued and outstanding)	(60,286)	(61,684)
Subordinated unitholders – BP Holdco (2019 and 2018 – 52,375,535 units issued and outstanding)	(689,236)	(705,227)
General partner	1,162	—
Total partners' capital	103,264	69,878
Non-controlling interests	136,966	140,974
Total equity	240,230	210,852
Total liabilities and equity	$ 722,096	$ 693,203

The accompanying notes are an integral part of the consolidated financial statements.

BP MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2019	2018	2017
	(in thousands of dollars, unless otherwise indicated)		
Revenue			
Third parties	$ 3,032	$ 2,836	$ 2,204
Related parties	125,436	113,603	105,947
Total revenue	128,468	116,439	108,151
Costs and expenses			
Operating expenses – third parties	14,164	11,482	9,033
Operating expenses – related parties	5,813	5,006	7,073
Maintenance expenses – third parties	1,486	2,640	4,437
Maintenance expenses – related parties	268	97	461
General and administrative – third parties	2,743	4,582	895
General and administrative – related parties	14,124	14,072	6,670
Depreciation	2,630	2,658	2,673
Impairment and other, net	1,000	—	—
Property and other taxes	722	483	393
Lease expense	71	61	61
Gain from disposition of property, plant and equipment	—	—	(5)
Total costs and expenses	43,021	41,081	31,691
Operating income	85,447	75,358	76,460
Income from equity method investments	116,747	94,361	17,916
Other income	—	—	25
Interest expense, net	15,127	4,043	107
Income before income taxes	187,067	165,676	94,294
Income tax expense	—	—	25,318
Net income	187,067	165,676	68,976
Less: Predecessor net income prior to the IPO on October 30, 2017	—	—	39,102
Net income subsequent to the IPO	187,067	165,676	29,874
Less: Net income attributable to non-controlling interests	19,183	32,619	8,099
Net income attributable to the Partnership subsequent to the IPO	$ 167,884	$ 133,057	$ 21,775
Net income attributable to the Partnership per limited partner unit – basic and diluted (in dollars):			
Common units	$ 1.58	$ 1.27	$ 0.21
Subordinated units	$ 1.58	$ 1.27	$ 0.21
Weighted Average Number of Limited Partner Units Outstanding - Basic and Diluted (in millions):			
Common units – public	47.8	47.8	47.8
Common units – BP Holdco	4.6	4.6	4.6
Subordinated units – BP Holdco	52.4	52.4	52.4

The accompanying notes are an integral part of the consolidated financial statements.

BP MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Partnership						
(in thousands of dollars)	Common Unitholders – Public	Common Unitholders – BP Holdco	Subordinated Unitholders – BP Holdco	**General Partner**	**Non-controlling Interests**	**Net Parent Investment**	**Total**
Balance at December 31, 2016	$ —	$ —	$ —	$ —	$ —	$ 73,942	$ 73,942
Net income from January 1, 2017 through October 29, 2017	—	—	—	—	—	39,102	39,102
Net transfers to Parent	—	—	—	—	—	(37,616)	(37,616)
Balance at October 29, 2017 (prior to the IPO)	$ —	$ —	$ —	$ —	$ —	$ 75,428	$ 75,428
Allocation of net parent investment to unitholders	—	6,067	69,361	—	—	(75,428)	—
Working capital and other balances retained by Parent upon the IPO	—	(795)	(9,084)	—	—	—	(9,879)
Environmental remediation obligations indemnification assets contributed by Parent upon IPO	—	351	4,014	—	—	—	4,365
Contribution of equity method investments upon the IPO	—	12,567	143,677	—	343,744	—	499,988
Net proceeds from the IPO, net of underwriters' discount and offering costs	814,658	—	—	—	—	—	814,658
Distribution of IPO proceeds to Parent	—	(65,525)	(749,133)	—	—	—	(814,658)
Net income from October 30, 2017 through December 31, 2017	9,936	952	10,887	—	8,099	—	29,874
Unit-based compensation	19	—	—	—	—	—	19
Distributions of prorated fourth quarter joint venture dividends to prior owners	—	(758)	(8,669)	—	—	—	(9,427)
Distributions to non-controlling interests	—	—	—	—	(9,513)	—	(9,513)
Balance at December 31, 2017	$ 824,613	$ (47,141)	$ (538,947)	$ —	$ 342,330	$ —	$ 580,855
Cumulative effect of accounting change in equity method investments (Note 6)	(1,253)	(120)	(1,373)	—	—	—	(2,746)
Net income	60,711	5,819	66,527	—	32,619	—	165,676
Distribution to unitholders ($1.0113 per unit) and general partner	(48,333)	(4,632)	(52,963)	—	—	—	(105,928)
Acquisitions from Parent	874	(15,610)	(178,471)	—	(187,563)	—	(380,770)
Unit-based compensation	177	—	—	—	—	—	177
Distributions to non-controlling interest	—	—	—	—	(46,412)	—	(46,412)
Balance at December 31, 2018	$ 836,789	$ (61,684)	$ (705,227)	$ —	$ 140,974	$ —	$ 210,852
Net income	75,466	7,231	82,681	2,506	19,183	—	187,067
Distribution to unitholders ($1.2733 per unit) and general partner	(60,870)	(5,833)	(66,690)	(1,344)	—	—	(134,737)
Unit-based compensation	239	—	—	—	—	—	239
Distributions to non-controlling interest	—	—	—	—	(23,191)	—	(23,191)
Balance at December 31, 2019	$ 851,624	$ (60,286)	$ (689,236)	$ 1,162	$ 136,966	$ —	$ 240,230

The accompanying notes are an integral part of the consolidated financial statements.

BP MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities	(in thousands of dollars)		
Net income	$ 187,067	$ 165,676	$ 68,976
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	2,630	2,658	2,673
Deferred income taxes	—	—	453
Impairment and other, net	1,000	—	—
Non-cash expenses	288	177	233
Gain due to changes in fair value of allowance oil receivable	—	—	(25)
Gain from disposition of property, plant and equipment	—	—	(5)
Income from equity method investments	(116,747)	(94,361)	(17,916)
Distributions of earnings received from equity method investments	119,865	98,134	22,663
Changes in operating assets and liabilities			
Accounts receivable	(1,782)	(425)	(11,015)
Allowance oil receivable	—	—	(1,570)
Prepaid expenses and other current assets	(484)	(3,297)	(1,406)
Accounts payable	(2,410)	854	2,872
Deferred revenues and credits	477	1,067	—
Other current liabilities	(572)	3,300	3,308
Net cash provided by operating activities	189,332	173,783	69,241
Cash flows from investing activities			
Capital expenditures	(1,081)	(1,604)	(2,257)
Acquisitions from Parent	—	(87,230)	—
Distribution in excess of earnings from equity method investments	11,538	19,670	7,242
Proceeds from disposition of property, plant and equipment	—	—	5
Net cash provided by (used in) investing activities	10,457	(69,164)	4,990
Cash flows from financing activities			
Net transfers to Parent – prior to the IPO	—	—	(37,830)
Proceeds from issuance of debt	—	468,000	15,000
Repayment of debt	—	(15,000)	—
Net proceeds from issuance of common units to public	—	—	814,658
Distribution of IPO proceeds to our Parent	—	(233)	(814,425)
Distributions of prorated fourth quarter joint venture dividends to prior owners	—	—	(9,427)
Acquisitions from Parent	—	(380,770)	—
Distributions to unitholders and general partner	(134,737)	(105,928)	—
Distributions to non-controlling interests	(23,191)	(46,412)	(9,513)
Net cash used in financing activities	(157,928)	(80,343)	(41,537)
Net change in cash and cash equivalents	41,861	24,276	32,694
Cash and cash equivalents at beginning of the year	56,970	32,694	—
Cash and cash equivalents at end of the year	$ 98,831	$ 56,970	$ 32,694
Supplemental cash flow information			
Cash paid for interest	$ 16,440	$ 735	$ —
Cash paid for lease liabilities	62	—	—
Non-cash investing and financing transactions:			
Accrued capital expenditures	219	164	19
Contribution of equity method investments upon the IPO	—	—	499,988
Working capital and other balances retained by Parent upon the IPO	—	—	(9,879)
Environmental remediation obligations indemnification assets contributed by Parent upon IPO	—	—	4,365

The accompanying notes are an integral part of the consolidated financial statements.

BP MIDSTREAM PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars, unless otherwise indicated)

1. Business and Basis of Presentation

BP Midstream Partners LP (either individually or together with its subsidiaries, as the context requires, the “Partnership”) is a Delaware limited partnership formed on May 22, 2017 by BP Pipelines (North America) Inc. (“BP Pipelines”), an indirect wholly owned subsidiary of BP p.l.c. (“BP”), a “foreign private issuer” within the meaning of the Securities Exchange Act of 1934, as amended. On October 30, 2017, the Partnership completed its initial public offering (the "IPO") of common units representing limited partner interests. *See Note 3 - Acquisitions* for the discussion of the IPO.

Unless otherwise stated or the context otherwise indicates, all references to “we,” “our,” “us,” “Wholly Owned Assets,” “Predecessor,” or similar expressions for time periods prior to the IPO refer to BP Midstream Partners LP Predecessor. For time periods subsequent to the IPO, “we,” “our,” “us,” or similar expressions refer to the legal entity BP Midstream Partners LP.

The term “our Parent” refers to BP Pipelines, any entity that wholly owns BP Pipelines, indirectly or directly, including BP and BP America Inc. (“BPA”), an indirect wholly owned subsidiary of BP, and any entity that is wholly owned by the aforementioned entities, excluding BP Midstream Partners LP Predecessor and the Partnership.

Business

We are a master limited partnership formed by BP Pipelines, an indirect wholly owned subsidiary of BP, to own, operate, develop and acquire pipelines and other midstream assets. Our assets consist of interests in entities that own crude oil, natural gas, refined products and diluent pipelines and refined product terminals serving as key infrastructure for BP and other customers to transport onshore crude oil production to BP’s Whiting Refinery and offshore crude oil and natural gas production to key refining markets and trading and distribution hubs. Certain of our assets deliver refined products and diluent from the Whiting Refinery and other U.S. supply hubs to major demand centers.

Our assets consist of the following:

- BP Two Pipeline Company, LLC, which owns the BP#2 crude oil pipeline system (“BP2”).
- BP River Rouge Pipeline Company, LLC, which owns the Whiting to River Rouge refined products pipeline system (“River Rouge”).
- BP D-B Pipeline Company, LLC, which owns the Diamondback diluent pipeline system (“Diamondback”). BP2, River Rouge, and Diamondback, together, are referred to as the "Wholly Owned Assets".
- A 28.5% ownership interest in Mars Oil Pipeline Company, LLC (“Mars”), which owns a major corridor crude oil pipeline system in the Gulf of Mexico.
- A 65% managing member interest in Mardi Gras Transportation System Company, LLC (“Mardi Gras”), which holds the following investments in joint ventures located in the Gulf of Mexico:
    - A 56% ownership interest in Caesar Oil Pipeline Company, LLC (“Caesar”),
    - A 53% ownership interest in Cleopatra Gas Gathering Company, LLC (“Cleopatra”),
    - A 65% ownership interest in Proteus Oil Pipeline Company, LLC (“Proteus”), and,
    - A 65% ownership interest in Endymion Oil Pipeline Company, LLC (“Endymion”).
    - Together Endymion, Caesar, Cleopatra and Proteus, are referred to as the “Mardi Gras Joint Ventures.”
- A 22.7% ownership interest in Ursa Oil Pipeline Company, LLC ("Ursa").
- A 25% ownership interest in KM Phoenix Holdings, LLC ("KM Phoenix").

We generate the majority of our revenue by charging fees for the transportation of crude oil, refined products and diluent through our pipelines under agreements with minimum volume commitments. We do not engage in the marketing and trading of any commodities. All of our operations are conducted in the United States, and all our long-lived assets are located in the United States. Our operations consist of one reportable segment.

Certain businesses of ours are subject to regulation by various authorities including, but not limited to the Federal Energy Regulatory Commission ("FERC"). Regulatory bodies exercise statutory authority over matters such as common carrier tariffs, construction, rates and ratemaking and agreements with customers.

Basis of Presentation

Our consolidated financial statements have been prepared under the rules and regulations of the Securities and Exchange Commission ("SEC"). These rules and regulations conform to the accounting principles contained in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification, the single source of accounting principles generally accepted in the United States ("GAAP").

Prior to the IPO on October 30, 2017, our financial position, results of operations and cash flows consisted of the Predecessor's operations, which represented a combined reporting entity. All intercompany accounts and transactions within the Predecessor's financial statements have been eliminated for all periods presented. The assets and liabilities contributed to us by the Predecessor have been reflected on the historical cost basis on the consolidated financial statements. Immediately prior to the IPO, the Predecessor's assets and liabilities were transferred to the Partnership within our Parent's consolidated group in a transaction under common control. Subsequent to the IPO, our financial position, results of operations and cash flows consist of consolidated BP Midstream Partners LP activities and balances.

Prior to the IPO, our consolidated statements of operations also include expense allocations to the Predecessor for certain functions performed by our Parent on our behalf, including allocations of general corporate expenses related to finance, accounting, treasury, legal, information technology, human resources, shared services, government affairs, insurance, health, safety, security, employee benefits, incentives, severance and environmental functional support. The portion of expenses that are specifically identifiable to the Wholly Owned Assets are directly recorded to the Predecessor, with the remainder allocated on the basis of headcount, throughput volumes, miles of pipe and other measures. Our management believes the assumptions underlying the financial statements, including the assumptions regarding the allocation of general corporate expenses from our Parent, are reasonable. Nevertheless, the financial statements may not include all of the expenses that would have been incurred, had we been a stand-alone entity during the periods prior to the IPO and may not reflect our financial position, results of operations and cash flows, had we been a stand-alone entity during such periods. See Note 10 - *Related Party Transactions*.

Prior to the IPO, the Wholly Owned Assets did not own or maintain separate bank accounts. Our Parent used a centralized approach to cash management and historically funded our operating and investing activities as needed within the boundaries of a documented funding agreement. Accordingly, cash held by our Parent at the corporate level was not allocated to us for any of the periods prior to the IPO. During such periods, we reflected the cash generated by our operations and expenses paid by our Parent on our behalf as a component of Net parent investment on our consolidated balance sheets, and as a net distribution to our Parent on our consolidated statements of cash flows. We also did not include any interest income on the net cash transfers to our Parent. In connection with the IPO, we established our own cash accounts for the funding of our operating and investing activities. See Note 3 - *Acquisitions* for additional details.

All financial information presented for the periods after the IPO represents the consolidated results of operations, financial position and cash flows of the Partnership. Accordingly:

- Our consolidated statements of operations and cash flows for the years ended December 31, 2019 and 2018 consist of the consolidated results of the Partnership. Our consolidated statements of operations and cash flows for the year ended December 31, 2017 consist of the consolidated results of the Partnership for the period from October 30, 2017 through December 31, 2017, and the combined results of the Predecessor for the period from January 1, 2017 through October 29, 2017.
- Our consolidated balance sheet at December 31, 2019 and 2018 consist of the consolidated balances of the Partnership.
- Our consolidated statement of changes in equity for the years ended December 31, 2019 and 2018 consist of the consolidated activities for the Partnership, and 2017 consists of both the combined activities for the Predecessor prior to October 30 2017, and the consolidated activities for the Partnership completed at and after the IPO on October 30, 2017.

2. Summary of Significant Accounting Policies

Principles of Consolidation

Our consolidated financial statements include all subsidiaries, where the Partnership has control and a variable interest entity ("VIE") of which we are the primary beneficiary. The assets and liabilities in the consolidated financial statements have been reflected on a historical basis. All inter-company accounts and transactions are eliminated upon consolidation.

We evaluate our ownership, contractual arrangements and other interests in entities to determine if these entities are VIEs and whether we are the primary beneficiary of the VIE. In determining whether we are the primary beneficiary of a VIE and therefore required to consolidate the VIE, we apply a qualitative approach that determines whether we have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance and (2) the obligation to absorb the majority of losses of or the rights to receive the majority of the benefits from the VIE that could potentially be significant to the VIE. We continuously assess whether we are the primary beneficiary of a VIE as changes to existing relationships or future transactions may result in the consolidation or deconsolidation, as the case may be, of such VIE.

We consolidate BP2, River Rouge and Diamondback, as we control these entities through 100% of the ownership interest. We control and consolidate Mardi Gras via an agreement between us and our Parent, under which we have the right to vote 100% of Mardi Gras' interests in each of the Mardi Gras Joint Ventures. We have determined that we are the primary beneficiary of Mardi Gras. See Note 17 **-** *Variable Interest Entity* for further discussion.

Net Parent Investment

Net parent investment represents our Parent's historical investment in us, our accumulated net earnings after taxes, and the net effect of transactions with and allocations from our Parent through October 29, 2017.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported on the consolidated financial statements and disclosures included in the accompanying notes. Actual results could differ from these estimates.

Common Control Transactions

Assets and businesses acquired from our Parent and its subsidiaries are accounted for as common control transactions whereby the net assets acquired are included in our consolidated balance sheets at their historical carrying value. If any recognized consideration transferred in such a transaction exceeds the historical carrying value of the net assets acquired, the excess is treated as a capital distribution to our Parent, similar to a dividend. If the historical carrying value of the net assets acquired exceeds any recognized consideration transferred including, if applicable, the fair value of any limited partner units issued, such excess is treated as a capital contribution from our Parent.

Revenue Recognition

We adopted Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"), applying the modified retrospective transition method, which required us to apply the new standard to (i) all revenue contracts entered into, and (ii) revenue contracts which were not completed as of January 1, 2018. ASC 606 replaces existing revenue recognition requirements in GAAP and requires us to recognize revenue at an amount that reflects the consideration to which we expect to be entitled in exchange for transferring goods or services to a customer. ASC 606 also requires certain disclosures regarding qualitative and quantitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of ASC 606 did not result in a transition adjustment nor did it have a material impact on the timing or amount of our revenue recognition. Please see Note 4 **-** *Revenue Recognition* for further discussion.

Equity Method Investments

We account for an investment under the equity method if we have the ability to exercise significant influence, but not control, over the investee. Under the equity method of accounting, the investment is recorded at its initial carrying value on the consolidated balance sheets and is adjusted for capital contributions, dividends received and our share of the investee's earnings or losses, which is recorded as a component of Income from equity method investments on the consolidated statements of operations.

We evaluate equity method investments for impairment when events or changes in circumstances indicate, in our management's judgment, that a decline in value is other than temporary. Factors that may indicate that a decline in value is other than temporary include a deterioration in the financial condition of the investee, decisions to sell the investee, significant losses incurred by the investee, a change in the economic environment that is expected to adversely affect the investee's operations, an investee's loss of a principal customer or supplier and an investee's recording of impairment charges. If we determine that a decline in value is other than temporary, the investment is written down to its fair value, which establishes the investment's new cost basis.

Property, plant and equipment

Our property, plant and equipment is recorded at its historical cost of construction, or the carrying value of the transferring entity in a transaction under common control, or at fair value in a business combination. We record depreciation using the straight-line method with the following useful lives:

	Depreciable Lives (Years)
Land	—
ROW assets	—
Buildings and improvements	16 - 40
Pipelines and equipment	17 - 40
Other	4 - 23
Construction in progress	—

Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are removed, and any resulting gain or loss is recorded on the consolidated statements of operations.

Ordinary maintenance and repair costs are generally expensed as incurred. Such costs are recorded in Maintenance expenses- third parties and Maintenance expenses-related parties on our consolidated statements of operations. Costs of major renewals, betterments and replacements are capitalized as Property, plant and equipment. For constructed assets, we capitalize all construction-related direct labor and material costs, as well as indirect construction costs.

Impairment of Long-lived Assets

We evaluate long-lived assets of identifiable business activities for impairment when events or changes in circumstances indicate, in our management's judgment, that the carrying value of such assets may not be recoverable. These events include market declines that are believed to be other than temporary, changes in the manner in which we intend to use a long-lived asset, decisions to sell an asset and adverse changes in the legal or business environment, such as adverse actions by regulators. If an event occurs, which is a determination that involves judgment, we evaluate the recoverability of our carrying values of an asset group based on the long-lived assets' ability to generate future cash flows on an undiscounted basis. If the carrying amount is higher than the undiscounted cash flows, we further evaluate the impairment loss by comparing management's estimate of the fair value of the assets to the carrying value of such assets. We record a loss for the amount that the carrying value exceeds the estimated fair value.

Cash Equivalents

Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and will mature within 90 days or less from the date of acquisition. We record cash equivalents, if any, at its carrying value, which approximates its fair value.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable represent valid claims against customers for services rendered, net of allowances for doubtful accounts. We assess the creditworthiness of our counterparties on an ongoing basis and require security, including prepayments and other forms of collateral, when appropriate. We establish provisions for losses on accounts receivable due from shippers if we determine that we will not collect all or part of the outstanding balance. Outstanding customer receivables are regularly reviewed for possible nonpayment indicators, and allowances for doubtful accounts are recorded based upon management's estimate of collectability at each balance sheet date. At December 31, 2019 and 2018, our allowance for doubtful account balances were zero.

Income Taxes

Prior to the IPO on October 30, 2017, the Predecessor was not a standalone entity for income tax purposes and was included as part of BPA federal income tax returns. Our provision for income taxes was prepared on a separate return basis with consideration to the tax laws and rates applicable in the jurisdictions in which we operated and earned income. We used the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities were recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities were measured by applying the expected enacted income tax rates to taxable income in the years in which those differences were expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates was recognized in the results of operations in the period that included the enactment date. The realizability of deferred tax assets was evaluated quarterly based on a "more likely than not" standard and, to the extent this threshold was not met, a valuation allowance would be recorded. Prior to the IPO, we would recognize the impact of an uncertain tax position only if it was more likely than not of being sustained upon examination by the relevant taxing authority based on the technical merits of the position. There were no uncertain tax positions recorded for the Predecessor at the end of each period presented. Had there been any uncertain tax positions, our policy was to classify interest and penalties as a component of income tax expense.

BP Midstream Partners LP is treated as a partnership for federal and state income tax purposes, with each partner being separately taxed on its share of taxable income. Therefore, we have excluded income taxes from these financial statements subsequent to the IPO date of October 30, 2017. The deferred tax liability of the Predecessor was removed from our consolidated balance sheets with an offset to equity at that date.

We are a partnership, which is not subject to U.S. federal income taxes. Rather, our taxable income flows through to the owners, who are responsible for paying the applicable income taxes on the income allocated to them. For tax years beginning on or after January 1, 2018, we are subject to partnership audit rules enacted as part of the Bipartisan Budget Act of 2015 (the "Centralized Partnership Audit Regime"). Under the Centralized Partnership Audit Regime, any IRS audit of the Partnership would be conducted at the Partnership level, and if the IRS determines an adjustment, the default rule is that we would pay an "imputed underpayment" including interest and penalties, if applicable. We may instead elect to make a "push-out" election, in which case the partners for the year that is under audit would be required to take into account the adjustments on their own personal income tax returns.

Our partnership agreement does not stipulate how we will address imputed underpayments. If we receive an imputed underpayment, a determination will be made based on the relevant facts and circumstances that exist at that time. Any payments that the Partnership ultimately makes on behalf of its current partners will be reflected as a dividend, rather than tax expense, at the time that such dividend is declared.

Asset Retirement Obligations

Asset retirement obligations represent legal and constructive obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. We record liabilities for obligations related to the retirement and removal of long-lived assets used in our businesses at fair value on a discounted basis when they are incurred and can be reasonably estimated. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities increase due to the change in their present value, and the initial capitalized costs are depreciated over the useful lives of the related assets. The liabilities are eventually extinguished when settled at the time the asset is taken out of service.

Although the Wholly Owned Assets will be replaced as needed, the pipelines will continue to exist for an indefinite period of time. Therefore, there is uncertainty around the asset retirement settlement dates. As a result, we determined that there is not sufficient information to make a reasonable estimate of the asset retirement obligations for the Wholly Owned Assets, and we did not recognize any asset retirement obligations as of December 31, 2019 and 2018.

We will continue to evaluate our asset retirement obligations and future developments that could impact the amounts we record.

Legal

We are subject to litigation and regulatory proceedings as the result of our business operations and transactions. We utilize both internal and external counsel in evaluating our potential exposure to adverse outcomes from orders, judgments or settlements. In general, we expense legal costs as incurred.

Environmental Matters

We are subject to federal, state, and local environmental laws and regulations. These laws require us to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by us or other parties. Environmental expenditures that are required to obtain future economic benefits from its assets are capitalized as part of those assets. Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings shall be expensed, unless already provisioned for, which then shall be charged against provisions.

Provisions are recognized when we have a present legal or constructive obligation as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. We do not discount environmental liabilities, and we record environmental liabilities when environmental assessments and/or remedial efforts are probable, and when we can reasonably estimate the costs. In making environmental liability estimations, we consider the material effect of environmental compliance, pending legal actions against us and potential third-party liability claims. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs.

Generally, our recording of these provisions coincides with our commitment to a formal plan of action, or if earlier, on the closure or divestment of inactive sites. We recognize receivables for anticipated associated insurance recoveries when such recoveries are deemed to be probable. The ultimate requirement for remediation and its cost are inherently difficult to estimate. We believe that the outcome of these uncertainties should not have a material adverse effect on our financial condition, cash flows, or operating results.

Our existing environmental conditions prior to the IPO are obligations contributed to us by the prior operator of these facilities, BP Pipelines, who has agreed to indemnify us with respect to such conditions under the terms of an omnibus agreement that we entered into in connection with the IPO. For provisions related to such conditions, we record indemnification assets in our consolidated balance sheets in the amounts that equal the provisions. Subsequent to the IPO, revisions to the estimated environmental liability for conditions that are not indemnified under the omnibus agreement with our Parent are reflected in our consolidated statements of operations when they are probable and reasonably estimable.

For additional information regarding our environmental matters, see Note 14 - *Commitments and Contingencies*.